QUARTERLY INTEREST

VIEWPOINT

Is the Pendulum Swinging Back?

Barely six months ago, financial markets were warning us that we would be going through a period similar to the Great Depression. As renowned economist Paul Samuelson once quipped, “the stock market has successfully predicted nine of the last five recessions”. While the global economy is still in recession, it has nevertheless so far managed to avoid a return to the Great Depression, which many observers had anticipated as they read equity and bond markets oracles from late 2008. The recent turnaround of equity market does not however guaranty that an end to recession is a sure thing, even though Lacy Hunt, another market pundit, would have us believe: “The stock market has given off false signals in terms of anticipating recessions, but it has never given off a false signal about recovery before the recession ended.”

Indeed, the major equity markets have perked up over the last three months, with the S&P/TSX Index posting a total quarterly return of 19.97%, one of its highest ever. Since the beginning of the year, the Canadian bond market reflected a similar optimism about the economy. Indeed, the corporate sub-index climbed 10.19% (17.55% for the long-term corporate sub-index), whereas Government of Canada bonds returned -1.70%.

This poor showing on the part of Government of Canada bonds can be attributed to a rebound of yields from their historic lows. These yields had, in fact, bottomed out as investors sought shelter from the storm. Rising benchmark yields are also due to increased public spending, that has replaced private sector expenditures as the driver designed to help the economy steer clear of the shoals of depression. Funding requirements have in turn, ratcheted up.

But what about the economic background? Although financial markets appear to indicate that better days lie ahead, economic indicators remain subdued. For instance, just before the United States celebrated Independence Day, it was announced that 467,000 jobs were slashed from corporate payrolls in June. July 4 festivities were probably not as joyful as during the years of unbridled growth. Before relapsing, the labour market had seemed to be on the mend.

There are a number of signs that economic conditions are improving, including an increase in commodity prices. For instance, the price of oil rose from $39.19 at the end of 2008 to $49.39 in late March 2009 and then to $69.97 on June 30. Thus, a wave of optimism appears to be washing over the economy.

The upsurge in financial markets reflects greater stability in the economy. The storm that struck in late 2008 unsettled the convictions of many. Still, little by little, the reference points that were blown away by violent winds have reappeared. Of course, we’ll have to ensure that these signposts haven’t been displaced and that the factors that determine the value of financial assets have not changed.

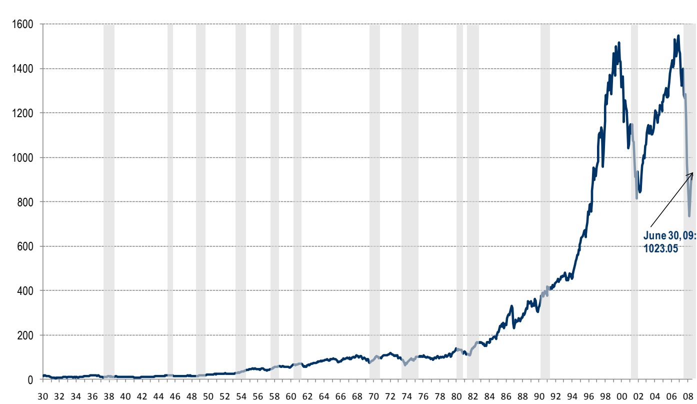
There is, naturally, nothing certain about the future. However, the aggressive — some would say unprecedented — interventions of governments and central banks during the crisis were designed to avoid the worst. And they appear to have worked. We’ve come back closer to more normal levels in terms of yield spreads, while bank stocks, battered by the storm, have rebounded.

Still, there is a difference between the worst and normality. While this difference is assuredly less than it was at the height of the crisis, perhaps we should review our definition of normality. Although the level of stock indices has risen, how long will it take for them to return to pre-crisis levels? As for credit spreads, can they also be expected to return to their previous values?

The crisis that we’ve experienced has raised many questions, especially about the valuation of financial assets. The sweet euphoria wrought by a background of low interest rates and narrow credit spreads lulled us into a false sense of security before the crisis brought about a rude awakening. Since then, capital markets have rebounded, and it’s fair to ask just how far the pendulum will swing back.

Finally, when the recovery gets underway, it will likely remain somewhat subdued. We therefore believe that one should not interpret too literally what often turns out to be exaggerated short term market fluctuations.

S&P 500 Index and Recessions



Source: Datastream

Note: Shaded zones : Recessions

ECONOMIC COMMENTS

International

The global economy crossed a very deep cyclical low during the first half of 2009. As the International Monetary Fund reported, a widespread contraction suggests a 1.4% drop in global GDP this year, the first negative number since the inception of the global GDP series in 1970. The IMF is also projecting that this drop will be followed by a moderate recovery of 2.5% in 2010 and by a return to a more normal cruising speed of over 4% beginning in 2011.

The decrease that is being forecast for advanced economies (-3.8% in 2009) is quite substantial, and no region is being spared. The IMF's projections are especially pessimistic for the euro zone (-4.8%) and Japan (-6.0%).

Meanwhile, emerging economies will keep on growing at an estimated rate of 1.5%, although this is a far cry from the rate of expansion of the six previous years, when they cruised along at a pace of 6% to 8%.

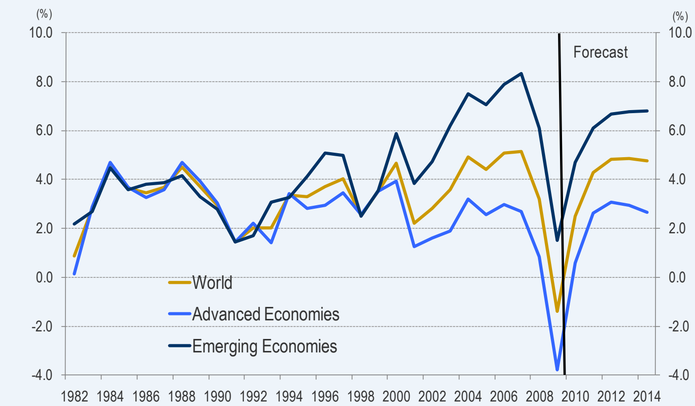
United States

The contraction in the U.S. economy during the fourth quarter of 2008 (-6.3%) and the first quarter of 2009 (-5.5%) was so pronounced because this was the first recession since 1990 in which consumption recorded a substantial decline. In fact, during previous downturns, it was mostly investment that contracted, while consumer expenditures provided more resilience. During the current recession, the U.S. consumer finally gave in, shaken by the loss of 6.5 million jobs and burdened by the weight of a massive debt accrued during years of excessive consumption and real estate speculation. In corporate America, reaction to lower demand was swift: companies immediately slashed production and inventories and slowed the pace of capital investment.

The recovery could come fairly early for U.S. businesses, as their inventories are rather depleted. As for consumers, they will have to regain some financial leeway and recover their confidence. Some progress has already been made in this regard during the recession, as the savings rate rose to 6.9% in May. Should a similar level be maintained, it would foster a more robust financial position, while allowing for a moderate and sustainable growth in consumption.

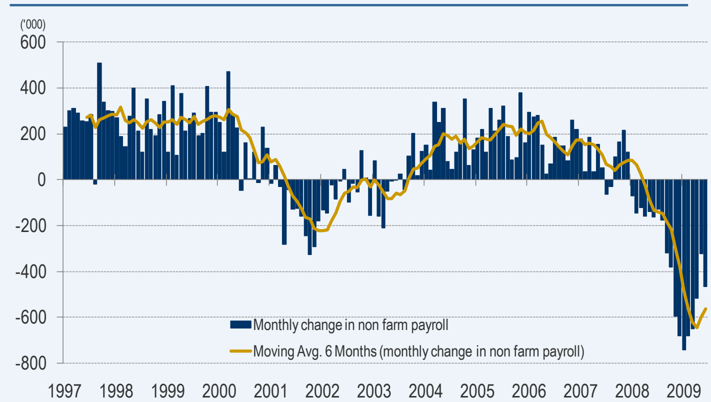
The Federal Government and the Federal Reserve adopted some powerful measures to stabilize the financial system, assist troubled households and support infrastructure construction. All of these initiatives appear to be in the early stages of working out, but some expenditures will only have an impact over the coming months due to implementation lags. The road to recovery therefore remains both winding and perilous.

IMF Growth Estimates



Source: IMF, April 2009

Change in Non Farm Payroll Employment
United States



Source : Datastream

Savings Rate as % of Disposable Income
United States

Source: Datastream

ECONOMIC COMMENTS (CONTINUED)

Canada

Although the Canadian economy has not been undermined by excesses as glaring as those of the U.S. economy, starting in the fall of 2008, it was no longer able to withstand the negative ripple effects of the global recession.

During the first half of 2009, the decline in economic activity (-5.4% on an annualized basis during the first quarter) and the deterioration in the job market (-286,000) weighed as heavily on Canada as on its neighbour to the south. Canadian consumers also lost their enthusiasm, as reflected in a 6.2% drop in year-over-year retail sales in April. The industrial heartland of the country located mostly in Ontario and Québec was hard hit by lower exports, especially to the United States. In Western Canada, a lengthy period of unprecedented prosperity has been interrupted, first by a drop in exports of building materials to the United States and more recently by lower exports of energy to the South and commodities to emerging economies.

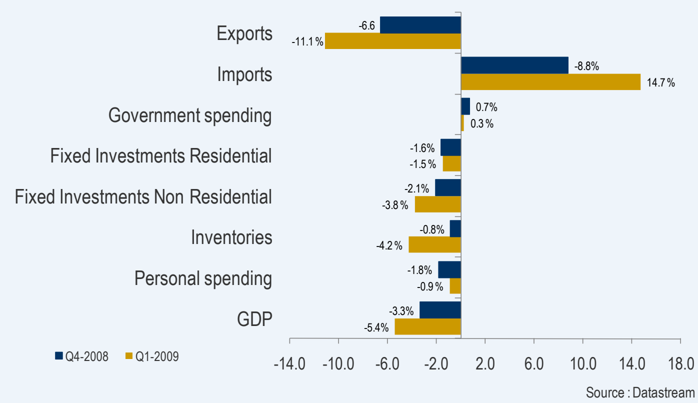
Since the Canadian economy is very open (exports account for 35% to 40% of GDP) and domestic demand has taken it on the chin following a steep rise in the unemployment rate (8.6% in June), global conditions must improve to stimulate our recovery. However, once it begins, a Canadian recovery will, in short order, be able to bank on enhanced domestic demand, since inventories are depleted, our real estate market has already stabilized and the financial wherewithal of Canadian consumers remains, by and large, better than in the United States.

Finally, the recession is having a devastating impact on government finances. Finance minister Jim Flaherty estimated recently that the deficit would total some $50 billion in 2009-10, which is well beyond the former record of $39.5 billion posted in 1992-93. This has reconfirmed a return to substantial funding requirements.

ECONOMIC INDICATORS (annual % change)*	UNITED STATES		CANADA	
	2008	2009	2008	2009
REAL GDP	1.1	-2.5	0.4	-2.1
UNEMPLOYMENT RATE **	5.8	8.7	6.2	8.0
INFLATION	3.8	-0.4	2.3	0.8
RETAIL SALES	-0.7	-9.2	3.4	-5.6
INDUSTRIAL PRODUCTION	-2.2	-12.1	-4.2	-8.7
CAPACITY UTILISATION **	77.6	69.7	78.0	69.3
EXPORTS OF GOODS	12.2	-23.0	5.8	-22.6
IMPORTS OF GOODS	7.5	-32.0	6.7	-11.7

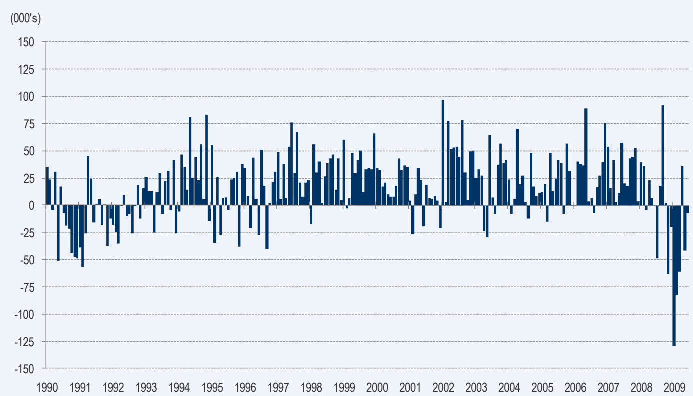
** Most recent cumulative data (as at July 10, 2009)*
*** Average*

Contribution to Canadian Growth



Source : Datastream

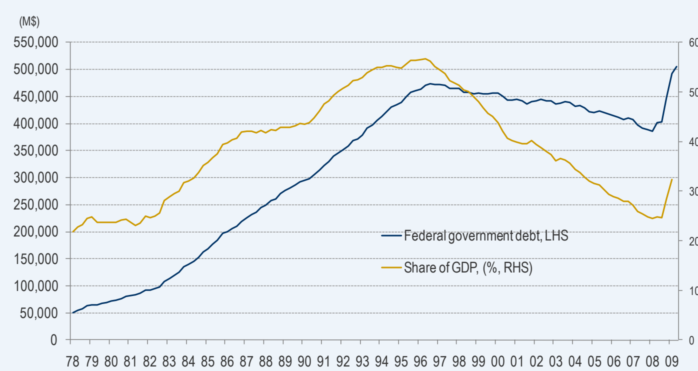
Employment creation - Canada



Source : Datastream

Debt Outstanding

Federal Government - in Millions of $



Source : Datastream

MARKET COMMENTS

Monetary Policy and Interest Rate Trends

How low can she go? In April the Bank of Canada lowered its target rate by 0.25% to 0.25%, bringing the cumulative easing since December 2007 to 425 basis points. In an unprecedented move, the Bank stated that conditional on the outlook for inflation, the target rate would remain at its current level until the end of the second quarter of 2010. Never before had a central bank so clearly laid out the future trajectory for the target rate by setting a date! The inflation projection was pared, as it is now expected to return to the 2% target only by the third quarter of 2011. The Bank also announced the extension of a portion of its existing stock of one- and three-month Purchase and Resale Agreements into six- and twelve-month terms in a commitment to maintain the overnight rate at its target.

The big event was supposed to be the unveiling of details relating to the potential quantitative easing (QE) and credit easing (CE) following the April Monetary Policy Report. However not much was unveiled. The Bank effectively left the QE/CE door wide open, not indicating with any specificity the timing, type, maturity or size of any potential action.

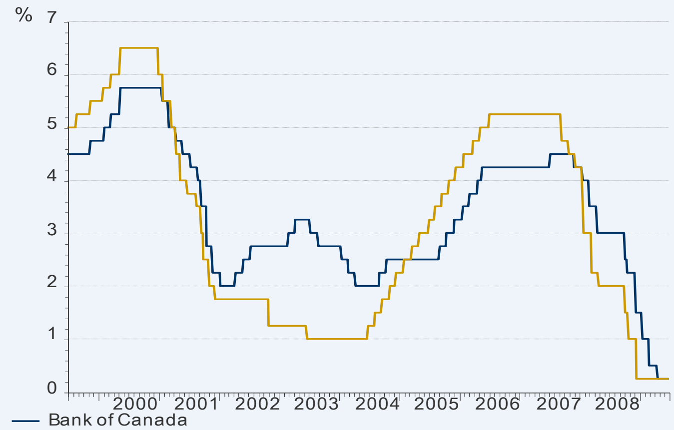
Subsequently, the Fed reconfirmed its prior commitment to employ “all available tools to promote economic recovery and to preserve price stability.” They were less specific than the Bank of Canada, simply stating the fed funds rate would remain at an exceptionally low level (0 to 0.25%) for an extended period of time. They did mention that the pace of economic contraction seemed to be slowing, indicating they would evaluate the current non-traditional programs in place in light of this evolving situation.

At its June meeting, the Bank of Canada held its overnight target rate at 0.25% and reaffirmed its conditional promise of unchanged rates through mid-2010. The Bank did not mention any QE or CE, as they highlighted improvements in financial conditions, commodity prices, and consumer and business confidence, thus limiting the need for any additional support from monetary policy.

Likewise, the Fed reasserted its commitment to low rates for a long time. They did not alter any of the non-traditional measures in place, while commenting again that the pace of economic contraction was slowing.

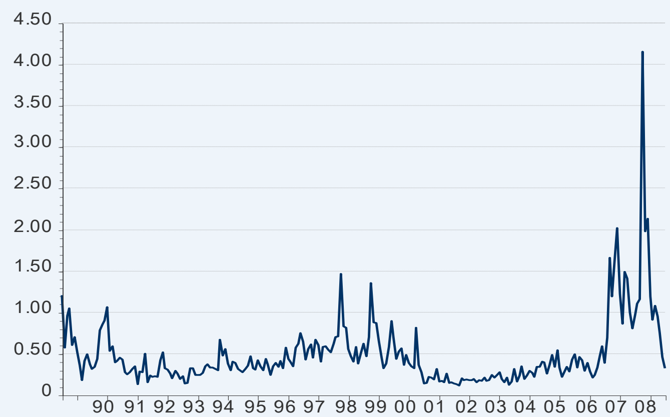
As long term government bond yields have increased significantly throughout the quarter, thereby tightening credit conditions, stay tuned for the next moves of our favourite central bankers as they strive to prevent a double-dip recession.

North-American Monetary Policy Target Rates



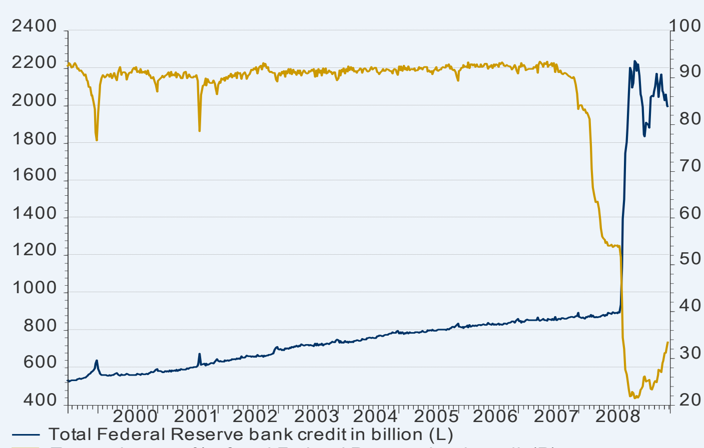
Source: Thomson Datastream

U.S. Interbank Market
3-month LIBOR - 3-Month U.S. T-Bills (TED Spread Estimate)



Source: Thomson Datastream

The Federal Reserve has Expanded its Balance She
but its composition is different



Source: Thomson Datastream

MARKET COMMENTS (CONTINUED)

A good many factors contributed to the volatility of the bond market during the second quarter of 2009. The announcement of additional support from central banks and governments made capital markets somewhat more stable, although it was still too early to speak of normalization. Economic data provided a measure of respite from the serious state of the real economy. Thus, bond yields closed out the quarter substantially higher than three months earlier.

During the second quarter, the DEX Universe Index returned 1.25%, led by the long sector at 2.27%, compared to 1.60% and 0.68% for the medium and short sectors respectively. Government of Canada bonds were the only asset class to generate a negative return for the period. A significant tightening of provincial and corporate credit spreads was primarily responsible for the positive return of the overall index during the quarter.

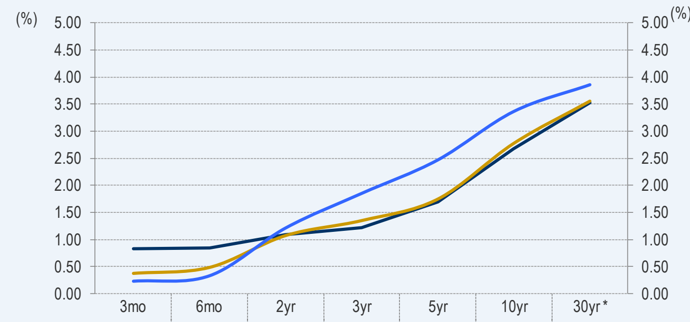
As the U.S. Federal Reserve Board had previously signalled, the fed funds rate remained at a historic low. However, the massiveness of the government issuance program and its monthly schedule heightened pressure on yields. As a result, market players were receptive to rumours that U.S. government credit would be downgraded and that foreigners would divest their Treasury instruments. As of June 30, 30-year yields stood at 4.33%, an increase of 80 basis points since March 31. Also noteworthy was the considerable range of this yield during the quarter, i.e. 135 basis points (from 3.49% to 4.84%).

In the United States, the pronounced steepening of the 2-year to 30-year yield curve that began during the first quarter of 2009 continued from April to June. From 273 basis points on March 31, the slope of the curve rose to 365 points and closed out the quarter at 333 points, an increase of 60 basis points for the period.

By proceeding with the final easing program of its monetary policy, the Bank of Canada showed that it was ready to sustain the country's economy despite turbulent capital markets. Moreover, the Bank was sending a clear signal to market players: it would not hesitate to implement quantitative easing if necessary. Meanwhile, the federal government made an upward revision to its deficit for the 2009-10 fiscal year, from $34 billion to $50 billion.

As in the U.S., Canadian yields rose markedly during the quarter. The largest increases (72 and 58 basis points) happened in the 5-year and 10-year maturities respectively. Meanwhile, 30-year yields went from 3.56 % to a high of 4.19% before closing out the quarter at 3.86%, an increase of 30 basis points for the period. Finally, 2-year yields were up 15 basis points.

Canadian Yield Curves

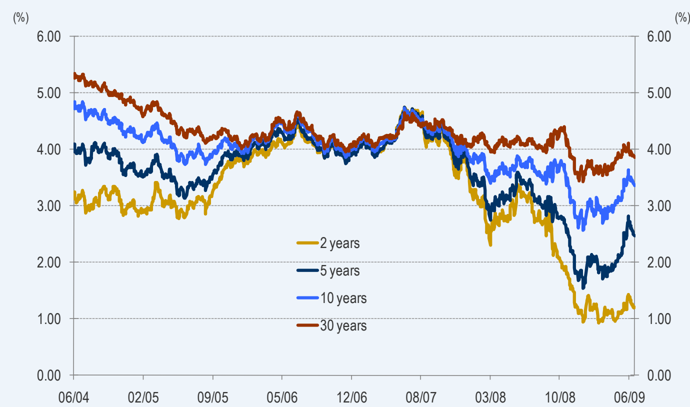


	3mo	6mo	2yr	3yr	5yr	10yr	30yr*
12/31/08	0.83	0.85	1.10	1.22	1.69	2.68	3.54
03/31/09	0.38	0.49	1.08	1.36	1.75	2.78	3.56
06/30/09	0.23	0.33	1.21	1.85	2.47	3.36	3.86

* Change of bond benchmark January 1st 2009

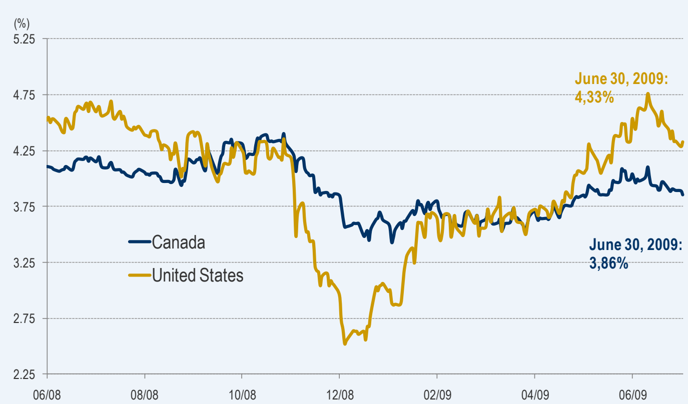
Canadian Interest Rate Trends

The yield curve steepened



Canada and United States 30-year Yields

June 2008 - June 2009



MARKET COMMENTS (CONTINUED)

The period featured large fluctuation ranges, led by the 5-year yield with a range of 117 basis points. Volatility was 94, 65 and 57 basis points for 10-, 30- and 2-year yields respectively.

The 2- to 30-year curve continued to steepen during the quarter, from 248 basis points to a high of 291 basis points, before closing out at 265 basis points on June 30.

Still, Canadian bond yields increased less than their U.S. government counterparts, so that Canadian sectors decidedly outperformed U.S. bonds in the aggregate. In fact, Canadian yields were lower than those in the U.S. for maturities of 5, 10 and 30 years. Of particular note was the 30-year spread, which shifted from 3 basis points to an extreme of -70 basis points prior to closing out the quarter at -47 basis points, resulting in an outperformance of 50 basis points for the quarter.

Real Return Bonds (RRBs)

Long RRB yields in Canada increased slightly during the second quarter, from 1.83% at the beginning of April to 1.90% at the end of June. In the U.S., they rose 12 basis points to 2.22%. Thus, the expected inflation rate was up 27 basis points in Canada to 2.08%, approaching the Bank of Canada's target inflation rate. Expected inflation also rose in the U.S., from 1.45% to 2.08% at the end of the quarter.

During the second quarter of 2009, the RRB index posted a return of 1.35%, compared to -3.40% for long Canada bonds. This strong showing of the RRB Index stands in sharp contrast to the subpar performance recorded during previous quarters, when investors turned their backs on RRBs because of expectations that very low inflation, and even deflation, would result from poor economic conditions.

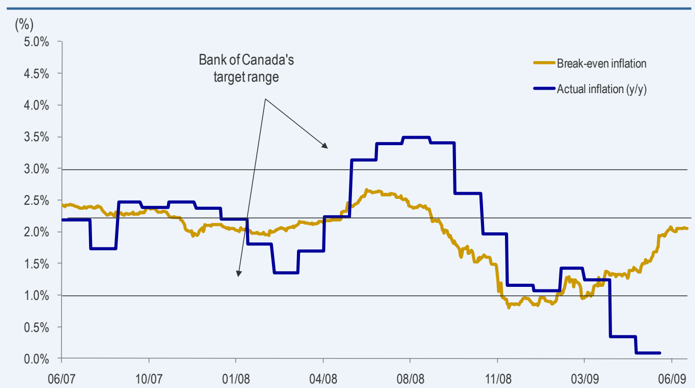
Canada - United States 10 Year Spread
(in basis points)

Source: Datastream

	Yield (%)			Change (b.p.)	
	06/30/09	03/31/09	12/31/08	Q2-2009	Year to date
Canada					
3-month	0.23	0.38	0.83	-15	-60
2-year	1.21	1.08	1.10	13	11
5-year	2.47	1.75	1.69	72	78
10-year	3.36	2.78	2.68	58	68
30-year	3.86	3.56	3.54	30	32
U.S.					
3-month	0.17	0.16	0.03	1	14
2-year	1.11	0.80	0.76	31	35
5-year	2.55	1.66	1.55	89	100
10-year	3.53	2.66	2.21	87	132
30-year	4.33	3.53	2.68	80	165
Canada/U.S. Yield Spread (b.p.)					
3-month	6	22	80	-16	-74
2-year	10	28	34	-18	-24
5-year	-8	9	14	-17	-22
10-year	-17	12	47	-29	-64
30-year	-47	3	86	-50	-133

*Change of bond benchmark January 1st, 2009

Break-even Inflation Implied by Canada Real Return Bonds and Actual Inflation
June 2007 - June 2009



MARKET COMMENTS (CONTINUED)

Provincial Bonds

Provincial bonds returned 1.37% during the quarter, compared to -2.26% for Canada bonds. A substantial tightening of provincial risk premiums was behind the stronger performance of these issuers during the quarter.

After having generated the lowest return of all provincial bonds in 2008, the 10-year sector recorded the largest decrease in spreads (75 basis points for Québec and Ontario) during the period. In the 30-year sector, spreads closed out the quarter at 105 basis points for Québec, 91 for Ontario and 88 for British Columbia, representing decreases of 44, 35 and 38 points respectively.

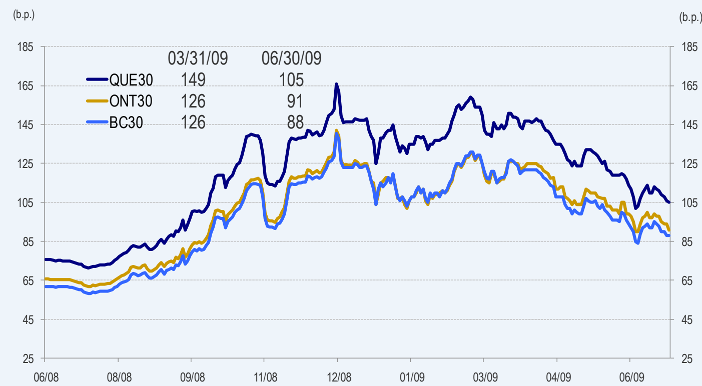
Appetite for risk has increased all over the world since March 31. Equities have regained favour with investors, while the pronounced widening of corporate bond spreads finally appeared sufficient to generate a preference for credits over federal government bonds; this has resulted in a spectacular tightening of spreads. Risk premiums for provincial bonds took up this trend, although to a lesser extent, as provincial governments announced record funding programs and deficits.

In terms of deficits, Ontario outdid all of its peers, reviewing its projected deficit for the 2009-10 fiscal year to nearly $18 billion and raising its funding requirements to a dizzying $39 billion. In an effort to quell speculation, the province immediately turned to the U.S. market to float a record issue of $4.6 billion in 5-year securities.

The provinces issued massive amounts of bonds — over $19 billion worth — during the quarter, in response to investor demand for credits. This represents an increase of $11 billion over the same period last year.

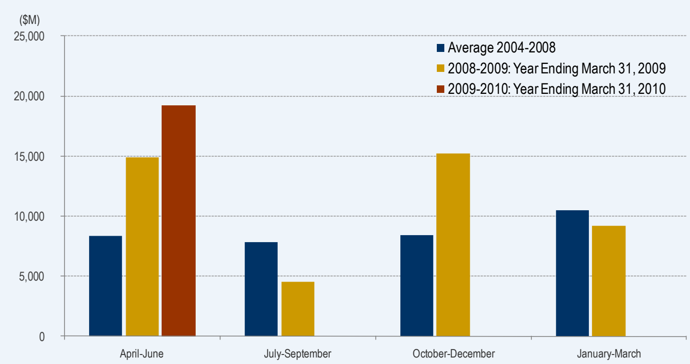
Moreover, rating agencies are on the alert. The various budget announcements, a faltering economy and the sad state of the automotive sector led DBRS and S&P to review Ontario's credit rating. Although the province's rating remained at AA, its outlook is now negative. On the strength of this review, Québec bonds outperformed those of Ontario as the 30-year spread fell from 23 basis points on March 31 to 14 points at the end of June.

30-year Provincial Spreads over Canada Bonds
June 2008 - June 2009



	Yield Spreads (b.p.)			Change	
	06/30/09	03/31/09	12/31/08	Q2-2009	Year to date
Quebec/Canada					
5-year	77	108	130	-31	-53
10-year	105	180	174	-75	-69
30-year	105	149	147	-44	-42
Ontario/Canada					
5-year	77	99	119	-22	-42
10-year	92	167	155	-75	-63
30-year	91	126	124	-35	-33
BC/Canada					
5-year	54	105	124	-51	-70
10-year	90	157	148	-67	-58
30-year	88	126	123	-38	-35
Yankee/US Treasuries					
Qc-30 yr	96	151	112	-54	-15

Quarterly New Issues



MARKET COMMENT (CONTINUED)

Corporate Bonds

The corporate bond market continued to build upon its strong performance from the start of the year with a remarkable second quarter. Yield spreads narrowed on average by 135 basis points with strong demand easily outweighing new supply. The market was encouraged by signs that some economic indicators were starting to bottom, as well as some better than expected corporate profits in the first quarter which led to a surging equity market. The financial crisis which overwhelmed markets in the fall of 2008 seemed to abate as many financial institutions in the United States started to repay their TARP (Troubled Asset Relief Program) loans to the Federal Reserve in June. Another positive element was the steady improvement in liquidity throughout the quarter for most corporate names, although it remains well below normal with still a high cost associated with trading.

The market was able to overcome a number of potential obstacles throughout the quarter. On April 30th Chrysler filed for bankruptcy, followed by General motor on June 1st. Both companies are attempting to restructure. These defaults were widely anticipated by the market and, when confirmed, had minimal effect overall. Banks in the United States were subjected to stress tests to determine whether they needed to raise additional capital. The good news was that a number of them did not require any additional capital and the ones that did were able to access the equity markets to meet the requirements. Another significant event that was largely ignored by the market was the downgrade of Canadian banks' tier 1 securities by DBRS in late June. The rating change reflected a revision of their view on external support as it relates to preferred shares and debt eligible as tier 1 capital and did not reflect any specific credit event.

New corporate bond issuance year-to-date in Canada remains lower than last year at the same period, but the second quarter was the most active quarter investors have experienced in the last twelve months. The supply came across all sectors, with especially strong representation from the communication sector with new issues from Manitoba Tel, Bell Aliant, Telus, Rogers, Cogeco, and Bell Canada. The very successful $1.0 billion, 5 year issue from Bell illustrated the change in risk assessment evident in the market as this issuer had not endeared itself to Canadian bond investors since its privatization attempt in 2007.

The new issue supply also had a lower quality tilt. Approximately half of the new issues were from BBB rated issuers who took advantage of strong demand to access the corporate bond market, as well as one high yield name (Viterra Inc.), a Maple bond (Met Life) and the first asset-backed deal (Ford Auto Sec. Trust) in almost two years.

The DEX corporate bond sector rallied 6.5% during the second quarter which significantly outperformed Federal Government bonds with a return of -2.3%.

New issuance by rating

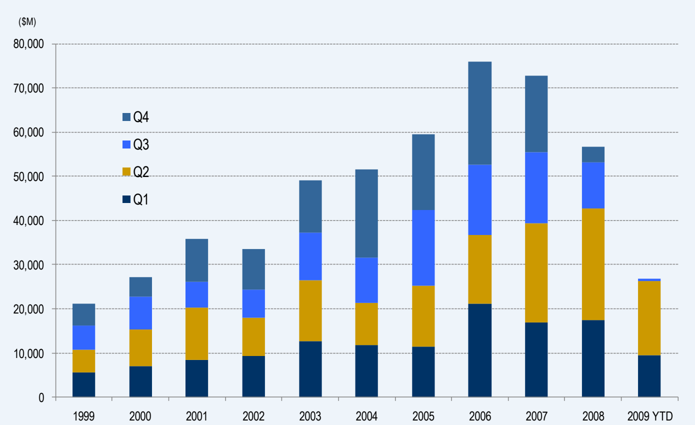
	Q2-2008	Q2-2009	Difference
AAA	3,090	350	-89%
AA	11,665	6,160	-47%
A	8,535	4,440	-48%
BBB	1,910	5,320	179%

Source: BMO Capital Markets, Bloomberg

Yield Spreads (b.p.) - Corporate Bonds	06/30/09	03/31/09	12/31/08	Change Q2-2009	Change YTD
Royal Bank					
5-year	185	330	450	-145	-265
10-year	200	345	465	-145	-265
30-year	210	345	465	-135	-255
Bell Canada					
5-year	220	370	510	-150	-290
10-year	260	430	540	-170	-280
30-year	320	475	540	-155	-220
Loblaws					
5-year	210	350	420	-140	-210
10-year	245	410	470	-165	-225
30-year	305	495	540	-190	-235
GTAA					
5-year	170	275	360	-105	-190
10-year	210	300	370	-90	-160
30-year	230	335	370	-105	-140
TransCanada Pipelines					
5-year	140	265	385	-125	-245
10-year	180	310	420	-130	-240
30-year	215	380	460	-165	-245

Source: National Bank Financial

Historical New Issuance



Source: BMO Capital Markets, Bloomberg

MARKET COMMENT (CONTINUED)

International Bonds and Currencies

Current economic conditions, although less disastrous than anticipated in late 2008, continue to weigh heavily on global government bond markets. Indeed, the efforts of governments and monetary authorities throughout the world to stabilize capital markets and lessen potential systemic risks are beginning to pan out. In fact, yields to maturity on government bonds have increased on a worldwide basis. The Global Government Bond Index (GBI) in U.S. dollars declined 0.8% during the quarter, for a year to date return of -1.1%.

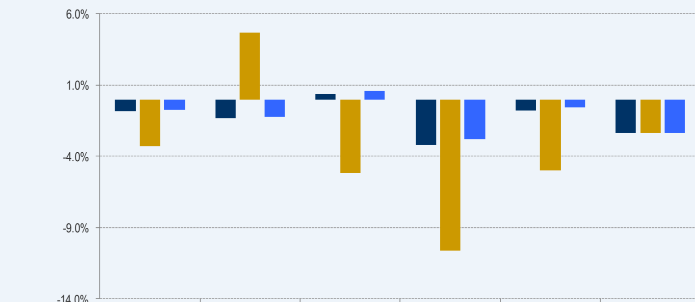
Historically low rates in Canada continued to substantially reduce the typical positive carry from hedging against fluctuations in the value of the Canadian dollar. The hedged GBI closed out the quarter down 0.6%, for a total decrease of 0.8% since the beginning of 2009.Since the beginning of the year, the unhedged index has lost 7.9%.

The rise of the Canadian dollar against most major currencies drove the unhedged GBI in Canadian dollar terms down 5.0% during the second quarter of 2009.

A stabilization of the global economy and a feeling that the worst of the crisis was behind us had a more profound impact on government instruments in countries of the dollar bloc; these were the same countries that benefited the most from the turbulent capital markets and the flight to safe havens experienced in late 2008. As riskier assets — especially credits — regained favour with investors, U.S. Treasury instruments were the big losers. This was compounded by the fact that the Fed was perceived as increasingly restrained in its quantitative easing measures in support of government securities. Also driven by substantial Treasury issues to fund an ever-increasing deficit and by the reluctance of some foreign central banks to continue accumulating U.S. dollars, 30-year yields climbed to 4.76% in early June, after bottoming out at 2.50% in November 2008. The U.S. bond market, which had advanced 14.3% during the final quarter of 2008, gave up 3.2% during the second quarter of 2009, for a total decline of 4.6% since the beginning of the year.

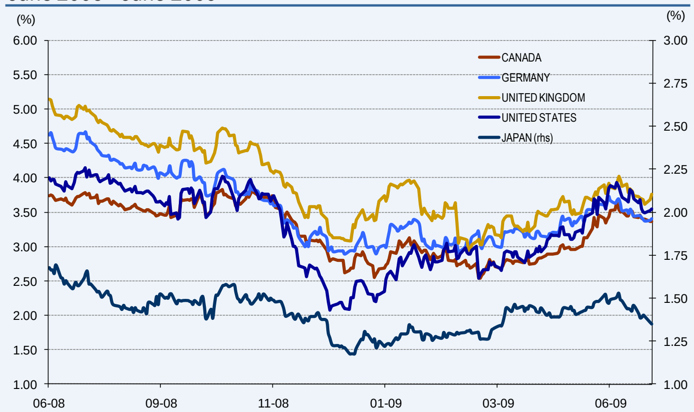
The British bond market was also off (-1.3%), as greater stability resulted from the actions taken by the government and the Bank of England. Although quite large, the government's bond issues received a warmer welcome than anticipated, sustained as they were by more attractive yields and by more positive sentiment toward the British pound. Considered to be one of the first economies that would manage a recovery, Australia witnessed its central bank halt reduction in its policy rate at the 3% level.

Quarterly Returns International Bonds
Q2-2009

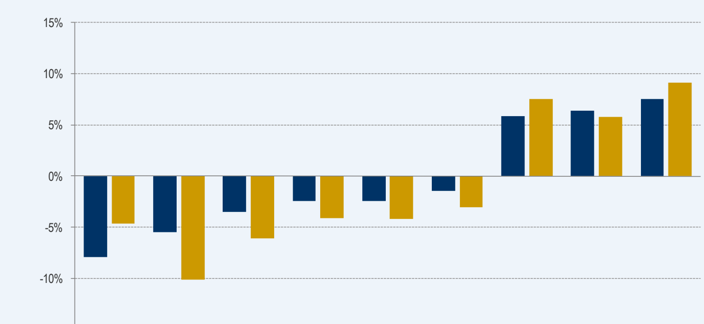


	Euro zone	United Kingdom	Japan	United States	Global	Canada
Local Currency	-0.8%	-1.3%	0.4%	-3.2%	-0.8%	-2.3%
Unhedged (C$)	-3.3%	4.7%	-5.2%	-10.6%	-5.0%	-2.3%
Hedged (C$)	-0.7%	-1.2%	0.6%	-2.8%	-0.6%	-2.3%

International 10-year Bond Yields
June 2008 - June 2009



Exchange Rate Fluctuations vs Canadian Dollar
Q2-2009



	$US	Yen	CHF	Euro	DK	SK	£	$NZ	$AUS
Q2- 2009	-7.9%	-5.5%	-3.5%	-2.4%	-2.4%	-1.4%	5.8%	6.4%	7.5%
YTD	-4.6%	-10.1%	-6.1%	-4.1%	-4.2%	-3.0%	7.6%	5.8%	9.2%

MARKET COMMENT (CONTINUED)

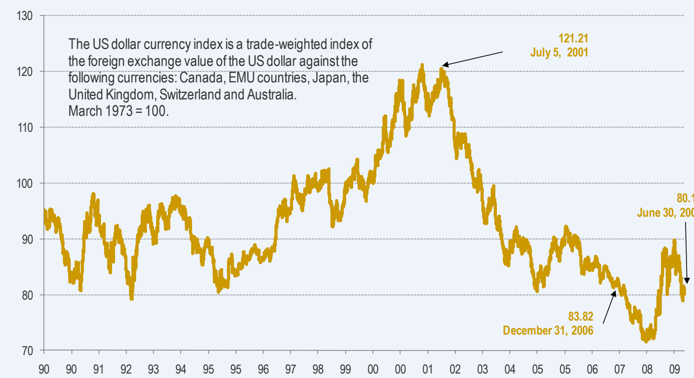
With the European Central Bank and governments in the euro zone taking less aggressive actions to prop up the economy, these bond markets closed out the quarter with a positive return of 0.6%. It would appear that, by making weaker fiscal efforts, these countries have allayed concerns over the increased supply of bonds compared to other countries. The best performances were turned in by peripheral countries such as Belgium (+1.4%) and Italy (+1.2%).

The appreciation of the U.S. dollar that began in July 2008 came to an end during the past quarter. Its safe haven attributes lost some of their appeal following some stabilization worldwide. In addition, rising commodity prices (including for oil) contributed to the greenback's depreciation against major currencies. Finally, the questions raised by the BRIC (Brazil, Russia, India, China) group of countries about maintaining the U.S. dollar as a store of value pushed the dollar in the same direction.

Higher commodity prices, such as the 40.7% jump in oil prices during the quarter, helped to propel the Canadian dollar from its lowly state. The relative strength of Canada's economy and a feeling that the Bank of Canada would postpone any quantitative easing as long as possible also helped to sustain our currency. Accordingly, the dollar reached US$0.9250 in early June before governor Carney's comments brought it back down to US$0.8600 at the end of June, but still representing a 8.62% increase over the quarter. Indeed, after pointing out that the loonie's rapid rise was cancelling out much of the effort put out by the Bank and the government to support the economy, the governor added that he was not ruling out the possibility that the Bank would again intervene in the foreign exchange market to prevent an unwelcome appreciation.

Monetary Policy Rates (%)	12/2008	03/2009	06/2009	Quarterly Change (b.p)	Year to date
Canada	1.50	0.50	0.25	-25	-125
United States	0.25	0.25	0.25	0	0
Europe	2.50	1.25	1.00	-25	-150
United Kingdom	2.00	0.50	0.50	0	-150
Japan	0.10	0.10	0.10	0	0

U.S. Dollar Index
(1973 = 100)



Source : Datastream, Federal Reserve

Exchange Rates	12/31/08	03/31/09	06/30/09	Quarterly change	Year to date
VS US$					
Euro	1.3964	1.3243	1.4036	5.98%	0.52%
Canadian Dollar	0.8204	0.7918	0.8600	8.62%	4.83%
Japanese Yen	0.0110	0.0101	0.0104	2.67%	-5.81%
Danish Krona	0.1876	0.1778	0.1885	6.00%	0.46%
British Pound	1.4603	1.4323	1.6466	14.96%	12.75%
NZ Dollar	0.5827	0.5592	0.6461	15.53%	10.88%
Australian Dollar	0.7052	0.6910	0.8070	16.79%	14.44%
Swiss Franc	0.9355	0.8782	0.9208	4.86%	-1.57%
Swedish Krona	0.1275	0.1211	0.1297	7.05%	1.65%
VS C$					
Euro	1.7020	1.6726	1.6320	-2.43%	-4.11%
US Dollar	1.2189	1.2630	1.1628	-7.94%	-4.61%
Japanese Yen	0.0134	0.0128	0.0121	-5.48%	-10.15%
Danish Krona	0.2287	0.2245	0.2191	-2.42%	-4.17%
British Pound	1.7800	1.8090	1.9145	5.83%	7.56%
NZ Dollar	0.7102	0.7063	0.7512	6.36%	5.77%
Australian Dollar	0.8595	0.8727	0.9383	7.52%	9.16%
Swiss Franc	1.1402	1.1091	1.0707	-3.47%	-6.10%
Swedish Krona	0.1555	0.1530	0.1508	-1.44%	-3.03%

MARKET COMMENT (CONTINUED)

Income Trusts

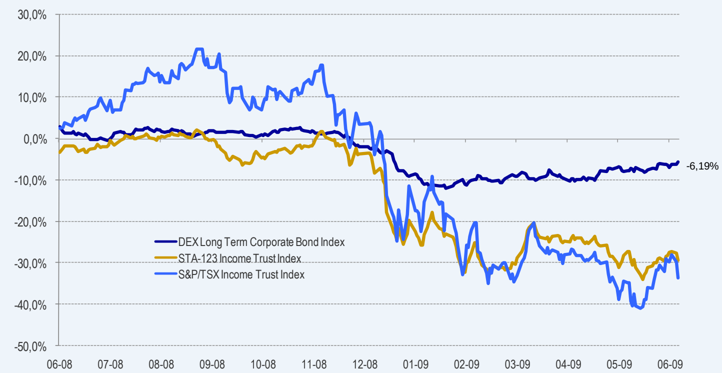
The S&P/TSX Income Trust index posted an impressive performance of 21.56% in the second quarter, bringing the year to date total return to 14.50%, as fears of a global depression were dispelled with aggressive monetary and fiscal efforts. An improved credit environment with tightening corporate bond spreads and interbank lending rates as well as "green shoots" signaling an economic recovery also fuelled the stock market rally during the second quarter. Looking at the TSX income trust index from a sector perspective, both energy (24.7%) and REITS[1] (25.23%) produced impressive returns over the quarter while trust operating in other sectors generally lagged. These strong returns were achieved against the backdrop of a very strong performance of 13.6% for the DEX Long Term Corporate Bond Index over the April-to- June quarter.

Those income trusts with strong stability ratings (STA 123) participated in the market recovery with a return of 16.61% for the quarter. The fundamentals of most income trusts with strong stability ratings remain solid and some income trusts were able to access credit and equity markets during the quarter to finance acquisitions or internal growth plans. With optimism for a second half economic recovery, we expect renewed M&A activity as some cash is redeployed towards long-term growth opportunities instead of focusing only on deleveraging balance sheets.

As we move closer towards the implementation date of the Federal income trust tax (effective January 2010), we expect more income trusts will announce changes about their legal structure and cash payout policy. Given the difficult economic environment and the impending transformation of legal structure for some trusts, none has announced a distribution increase since the beginning of the year, whereas 3 trusts (Noranda, Yellow Pages, EPCOR Power) have reduced their distributions by 30% to 53%. We continue to believe that merger activity amongst many of the income trusts with strong stability ratings will support the sector and its attractive yields.

[1] Real Estate Investment Trust

Cumulative Change in Income Trust and DEX Long Term Corporate Bond Indices
from June 30, 2008 to June 30, 2009



Sector Analysis

Returns

	Business	Pipeline	Power	REIT	Total
Q4-2006	-10.92%	-9.23%	-3.97%	10.36%	-2.82%
Q4-2007	1.52%	4.22%	-1.28%	-6.88%	-1.22%
Q1-2008	-0.99%	0.25%	-4.58%	-6.34%	-2.94%
Q2-2008	-4.88%	5.87%	5.89%	2.89%	1.62%
Q3-2008	-0.80%	-6.76%	-9.17%	-5.97%	-4.71%
Q4-2008	-22.31%	-10.39%	-19.32%	-30.03%	-18.74%
2006	-6.28%	-2.68%	0.23%	25.75%	4.57%
2007	24.79%	17.70%	0.75%	-3.57%	9.60%
2008	-27.42%	-11.32%	-25.96%	-36.60%	-23.63%
2009 to date	3.06%	15.19%	6.68%	13.17%	12.24%
Q1-2009	-1.57%	-1.65%	-4.75%	-9.62%	-3.75%
Q2-2009	4.70%	17.12%	12.00%	25.23%	16.61%

Weightings

	Business	Pipeline	Power	REIT	Total
12-31-06	31.2%	20.0%	19.3%	29.6%	100.0%
12-31-07	32.9%	17.9%	14.8%	34.3%	100.0%
03-31-08	33.8%	18.1%	14.8%	33.3%	100.0%
06-30-08	30.5%	18.6%	16.1%	34.8%	100.0%
09-30-08	31.7%	18.3%	17.1%	32.9%	100.0%
12-31-08	26.4%	20.1%	19.3%	34.2%	100.0%
03-31-09	22.4%	21.1%	21.6%	34.9%	100.0%
06-30-09	22.3%	21.1%	21.1%	35.5%	100.0%
Change	-0.1%	0.0%	-0.5%	0.6%	

Current Yield

	Business	Pipeline	Power	REIT	Total
12-31-07	8.18%	8.20%	9.31%	5.95%	7.58%
03-31-08	8.35%	8.41%	9.82%	6.43%	7.94%
06-30-08	9.32%	8.08%	9.44%	6.49%	8.13%
09-30-08	9.69%	9.36%	10.56%	6.98%	8.88%
12-31-08	12.54%	10.75%	12.83%	10.23%	11.45%
03-31-09	12.62%	11.39%	13.46%	9.87%	11.58%
06-30-09	11.30%	9.90%	11.35%	8.59%	10.06%