

VALUE
INTEGRITY
PERFORMANCE

- the foundation for excellence



WHAT WILL HAPPEN IN 2011?

INCOME TRUST FUNDS: FREQUENTLY ASKED QUESTIONS

Q3 2010

Dear Investor:

On October 31, 2006, Canada's Minister of Finance announced new taxation that would bring an end to the Income Trust Sector in Canada, effective in 2011. As we draw closer to 2011, many clients have questions about what will happen. We hope this FAQ answers some of them for you.

Q: Will Brompton's investment funds that hold income trusts need to terminate as a result of the conversion of income trusts to corporations?

A: No, all of the Brompton Funds' investment mandates were expanded to allow the portfolio managers to invest in income-producing securities other than income trusts including dividend-paying common shares.

Q: Are the Brompton Funds which are trusts subject to the new tax?

A: No, Brompton Funds will not be subject to the new tax.

Q: Will income trust distributions be reduced by 32% (i.e. corporate tax rate) when they convert to corporations?

A: Many trusts may reduce their distributions on conversion to corporations, however, the reduction may be less than 32%:

- Some trusts have tax loss pools or deductions that they will begin to use to reduce their taxable income after conversion.
- Some cut distributions during 2008/2009, and did not increase as business conditions improved, leaving a "cushion" as they convert.

Our portfolio managers are focusing on trusts that they believe will have minimal cuts.

Additionally, dividends paid after conversion may qualify for the dividend tax credit, making the "after-tax" value of dividends more valuable than the "after-tax" value of an equal amount of fully-taxable distributions for taxable investors. The effective dividend tax rate, after taking into account the dividend tax credit, is about half of the top marginal personal tax rate.

Q: How will the value of income trusts be affected as they convert to corporations?

A: Trusts that maintain high levels of dividends should not be impacted greatly by conversion. However some may reduce meaningfully. Our portfolio managers observe that after a conversion accompanied by a significantly lower dividend, "income-focused" (largely retail) investors drive down the share price by selling heavily. At some point the former trust becomes oversold and "value-focused" (mainly institutional) investors step in and start buying, supporting the price. Our portfolio managers believe that there may be a number of opportunities to add value by buying certain oversold common shares of former trusts.

Bloom Investment Counsel provides investment management services to Blue Ribbon Income Fund and Canadian High Income Equity Fund.

Lead portfolio manager Paul Bloom has been positive on the opportunities (as described above) that will emerge as the result of the conversion of income trusts, given his view that the market has been overly negative on the impact of income trust conversion. That being said, he has been cautious in his deployment of new capital raised in the Canadian High Income Equity Fund in February 2010, given the view that market volatility would continue in the short term (approximately 33% cash remained at the end of April). The month of May offered the funds some good buying opportunities in the income trust space.

Bloom believes that investors will show a strong preference for high-yielding equities after income trust conversion is complete, and they anticipate the emergence of a sought-after Canadian High Income Equity Sector, consisting mainly of former trusts and other companies which pay high dividends to compete for a lower cost of capital.

For more information please call Brompton Funds Investor Relations at 416-642-9051 or 1-866-642-6001

Certain statements contained in this document constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to matters disclosed in this document and to other matters identified in public filings relating to the Funds, to the future outlook of the Funds and anticipated events or results and may include statements regarding the future financial performance of the Funds. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information.