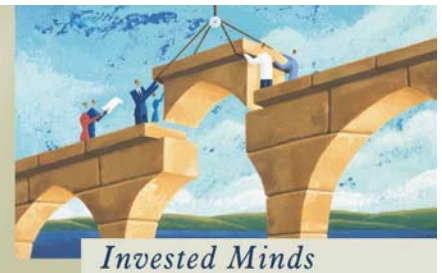




Global Asset Management Inc.

Market Insight



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Ontario legislative changes a win for income trust investors

If the Liberal government in Ontario has its way, investors in income trusts will no longer be personally liable for the performance of the trusts. In its December 17th Economic Statement, the newly elected government proposed changes regarding public liability for income trusts. As it stands, income trust investors are theoretically responsible for the losses incurred by the underlying business. However, most legal opinions consider liability to be a remote possibility.

It now appears that the proposed legislative changes could be implemented as early as March 2004. "It is not a question of **will** this issue be resolved, only a question of **when**," says Gaelen Morphet, TAL's income trust expert. "We do not expect much opposition to this legislation. And once Ontario has moved, we expect other provinces to approve similar legislation in a timely manner."

Limited liability has been the major roadblock preventing income trusts from being included in the S&P/TSX Composite Index. Only about 30 of Canada's income trusts would actually qualify for inclusion in the TSX given its various criteria. However, this would represent a weighting of approximately 5%.

Although the limited liability, and the subsequent TSX exclusion issue, has prevented many institutional investors from participating in the income trust market, it has done little to curb retail investors' enthusiasm for the asset class over the past five years. The income trust market in Canada currently has a capitalization of nearly \$70 billion, up from just \$15 billion in 1999.

This change could increase the demand for income trust products. "The supply of income trusts in the market is growing even faster than the demand," says Morphet. "It is becoming increasingly important to understand the underlying businesses and distribution predictability of the income trusts, since much of the new supply is unproven and could easily disappoint the inexperienced income trust investor."

Morphet has followed the income trust market since these investment vehicles were introduced. She currently manages more than \$1 billion in income trust mandates at TAL.

This chart depicts the explosion in both the number of constituents and the capitalization of the income trust market in recent years, according to Scotia Capital estimates.

