

September 30, 2005

David M. Blitzer, Ph.D.  
Managing Director & Chairman of the Index Committee  
Standard & Poor's  
55 Water Street  
New York, NY, 10041

Dear Sir:

**Re:** Index Inclusion for Income Trusts in the S&P/TSX Composite Index

Thank you for your email to Mr. Rotz of September 29, 2005 wherein you raised the issue of recent developments in Canada with respect to the income trust sector and inclusion in the S&P/TSX Composite Index. In your email you requested CAIF's views with respect to two options, namely maintaining the status quo and proceeding with index inclusion or delaying index inclusion until a later date.

CAIF strongly urges S&P to continue with the current process and to resist any temptation to deviate from index inclusion on the terms which have already been decided. Our view is that an announcement to delay index inclusion could result in unnecessary uncertainty in the market, a result which must be avoided. Furthermore, as you are no doubt already aware, many major institutional investors have already begun to rebalance their investments in anticipation of index inclusion and to stop or delay what has already been properly decided would create further difficulties for investors.

It is the view of CAIF, that through the fall of 2004, S&P undertook to complete, and did in fact complete, a rational and well considered process for index inclusion which included significant and broad industry consultation. The fundamental reasons which supported this process last year remain unchanged today. In point of fact, the reasons have only been strengthened with the passage of time as the number of income funds and the total market capitalization has only grown. As of August, 2005, we note, there are approximately 220 publicly traded income funds in Canada with a total market capitalization in excess of \$170 Billion.

On September 8<sup>th</sup>, 2005 the Department of Finance released its much anticipated Consultation Paper. The fact of the Consultation Paper, and its contents, were not new to CAIF or to the market as a whole and had been anticipated for months. CAIF and its members, accordingly, have been preparing to participate in the consultation process and none of the subsequent events have changed this fact. While the decision of the Department of Finance to suspend advance tax rulings pending the completion of the consultation process had an impact on the industry, it should be noted that the initial reaction has since tempered. In fact several fully underwritten deals have been brought to market over the past few days suggesting rather strongly that the sector is continuing to operate effectively. That having been said, were S&P to

announce a delay in index inclusion it would likely result in further unnecessary uncertainty in the market place, a result which S&P would no doubt seek to avoid.

In addition to the foregoing, the unnecessary costs, inconvenience and difficulties associated with some institutional index investors having already adjusted their investments could undermine the credibility of the process and the composite index.

For these reasons CAIF strongly urges S&P to adhere to its own processes and to continue with the orderly inclusion of income trusts in the S&P/TSX Composite Index. The decision to proceed with index inclusion was well researched and included all necessary industry consultation and sober consideration. To deviate from this would be to react to media driven speculation rather than adhering to the carefully considered decision made earlier this year

Yours very truly,

George Kesteven

President, Canadian Association of Income Funds

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