

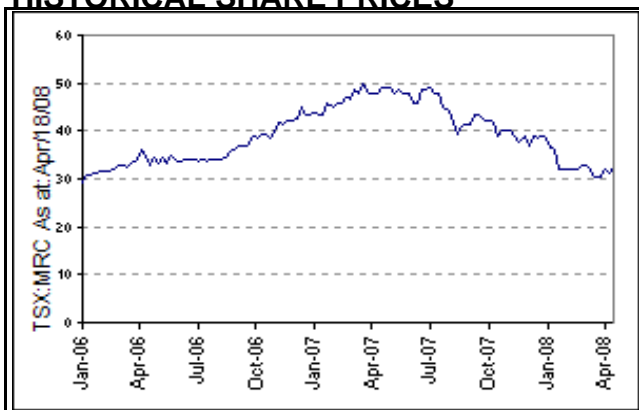
**THE COMPANY**

Morguard Corporation (TSX: MRC) is an integrated real estate company comprised of four operating divisions. The Company has a 50% interest in Morguard REIT (TSX: MRT.UN), a publicly traded real estate investment trust that holds retail, office and industrial properties across Canada. Morguard Residential, a wholly owned division, develops, manages and sells multi-unit residential properties primarily in the Greater Toronto Area. Morguard Investments, another wholly owned division, acts as a real estate advisor and manager for Canadian pension funds and institutional investors. Finally, Morguard has an 80% stake in Revenue Properties Company (TSX: RPC), which owns, develops and manages a portfolio of shopping centers, office properties and apartment buildings.

**FINANCIAL DATA**

	2005	2006	2007
FFO*	3.47	5.20	6.20
Price to FFO	9.4	6.3	5.2
Dividend (\$)	0.56	0.56	0.56
Dividend Yield (%)	1.72	1.72	1.72
Book Value (\$)	32.30	35.90	35.63
Price to Book Value (times)	1.01	0.91	0.91

\* Proportionately consolidated funds from operations.

**HISTORICAL SHARE PRICES**

**WHY ABC FUNDS BOUGHT MORGUARD**

Morguard Corporation, formerly known as Acktion Corporation, has completed the consolidation of its divisions under the Morguard banner. This has created an integrated real estate company, involved in the ownership, development and management of both residential and commercial real estate properties. Morguard's portfolio of assets is diversified both geographically and by product in order to mitigate softness in any one particular market. For example, although vacancies in the commercial portfolio increased from 6.5% to 8.3% in the second quarter of 2003, residential vacancies declined from 3.9% to 2.3%. As the rental markets recover, management has positioned the Company to maximize cash flow and grow shareholders' value.

Morguard REIT holds approximately 10.3 million square feet, of which 24% are office properties, 49% are retail properties and 27% are industrial properties. At year-end, the REIT's assets were valued at \$1.2 billion. Morguard Residential owns 18 apartment buildings, which contain approximately 6,100 units. The division's total assets were worth approximately \$431 million. Morguard Investments has assets of \$3.6 billion under management, comprising 36.5 million square feet across Canada. Revenue Properties Company owns 1.4 million square feet of retail space, 320,000 square feet of office space and 2,100 residential units. The division has assets worth approximately \$213 million. All told, Morguard Corporation has an asset base of approximately \$1.9 billion, an increase of 27% from \$1.5 billion in 2001.

Morguard's financial performance has been equally impressive, especially over the past five years. Revenue has grown to \$341 million from \$56 million, a compounded annual growth rate (CAGR) of 43.4%. Funds from operations (FFO), a standard metric in the real estate industry, have grown to \$70 million, or \$4.76 per share, from \$38 million, a CAGR of 12.7%. On a proportionately consolidated basis, Morguard reported FFO of \$3.08 per share in 2002, after adjusting for the minority interest of Morguard REIT and Revenue Properties Company. In 2002, Morguard earned \$2.00 per basic share or \$1.57 per fully diluted share and book value at December 31, 2002 totaled \$30.20. At current price levels, Morguard trades at 4.4 times FFO, 6.8 times proportionately consolidated FFO, 0.7x book value and pays a \$0.56 dividend, which yields 2.7%. The yield provides downside protection while the attractive valuation, relative to the Company's peers, leaves room for upside.

Our investment thesis is based on the Company's significant discount to its net asset value (NAV), in addition to the attractive financial multiples and dividend yield discussed above. Essentially, the NAV is calculated by adding the Company's capitalized net operating income, the value of the properties under development or held for sale and the investment portfolio at market prices less net debt. Following this methodology, we believe that Morguard's NAV is above \$30 per share, implying a discount of more than 30%. In contrast, most REITs in Canada currently trade at or above their NAV. Like many of our Value Favourites, management seems to agree that the shares are undervalued and have filed for a normal course issuer bid for 700,444 common shares or 5% of the total outstanding. We expect that if the valuation discount doesn't narrow, the Company will continue to repurchase shares at anti-dilutive price levels, which benefits all existing shareholders.

## UPDATES

Like many of the REITs, Morguard Corporation has declined almost 15% in recent months. The sell off was triggered by the threat of rising interest rates and the potential fallout on the real estate market. However, we believe that because Morguard trades at a discount to both its book value and net asset value, further downside is limited.

Our confidence is bolstered by the Company's solid fundamentals. Morguard currently owns \$2.1 billion in real estate assets at book and manages approximately \$2.7 billion for other investors. Market value of the properties and capitalization of funds from operations imply a net asset value per share in the mid \$30 range. For fiscal 2003, Morguard reported proportionately consolidated funds from continuing operations, a standard metric in the real estate industry, of \$4.59 per share compared to \$3.06 in 2002, a 50% increase. With the stock trading at less than 5 times this metric, and at a 30% discount to its \$31.07 book value, we believe that the stock is cheap. Apparently so does the Company since they bought back 535,000 shares over the course of 2003. In 2004, we expect management to continue to buy back stock, thus boosting shareholder value, and employ up to \$300 million of capital in new property acquisitions.

ABC Funds  
June 4, 2004

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Our last update on Morguard Corporation discussed an almost 15% sell off in response to rising interest rates and the potential fallout on the real estate market. As we suspected, downside was limited due to the large discount to both book value and net asset value, and the shares have since rebounded almost 30%. Solid fundamentals and book value and net asset value growth have rewarded patient shareholders.

In terms of operating and financial performance, Morguard generated \$4.55 per fully diluted share of proportionately consolidated funds from operations in fiscal 2004. Total assets have grown to \$2.4 billion and shareholders' equity now equals \$31.57 per share. In 2004, 241,100 shares were repurchased under the Company's Normal Course Issuer Bid for \$5.4 million. Morguard also paid \$7.9 million in dividends or \$0.56 per share during the year. Given the low-key nature of the Company, it is not surprising that Morguard continues to trade at very low multiples, currently only 0.95 times book value and 6.6 times proportionately consolidated funds from operations.

Although Morguard suffers from a lack of Bay Street coverage, the one analyst who does cover the stock recently produced an excellent report on the Company. He argued that cap rate compression (given investors' willingness to pay up for real estate assets funded by low interest rates) could imply a net asset value per share of \$48. Further, he suggested that adjusted book value could be as much as \$7 per share higher, due to aggressive depreciation rates for real property under Canadian GAAP. He also pointed out that the low trading liquidity and Rai Sahi's 44% control block make Morguard a "classic value stock". This type of analysis is music to our ears and we continue to patiently hold Morguard Corporation. We believe that a dividend increase is feasible and would help to narrow the discount to book value, adjusted book value and net asset value.

ABC Funds  
April 1, 2005

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Morguard Corporation has just reported financial and operating results for the second quarter of fiscal 2005. The Company reported a 16.7% increase in funds from operations (FFO) to \$1.61 per share. Morguard's proportionately consolidated share of FFO reached \$1.10 per share, an increase of 12.2%. Net income from continuing operations of \$0.29 per share and the Company's normal course issuer bid has boosted book value to \$32 per share. As usual, Morguard's Board of Directors approved the \$0.14 per share quarterly dividend, which yields 1.8% at current price levels.

Morguard's portfolio, net of amortization, now consists of office, industrial and retail assets totaling 13.5 million square feet worth \$1.512 billion at book, multi-residential properties with 6,366 suites worth \$489 million at book, developments of \$137 million, land held for sale worth \$6.6 million and an investment in a regional shopping centre of \$48.2 million. Development of the Bay/Wellesley condominium project, valued at \$14.5 million, is scheduled for completion this year. As at June 30, 2005 commercial occupancy rates are 93.9% and residential occupancy rates are 95.9%.

Although the dividend was not increased this quarter, we are confident in management's ability to generate solid returns for patient shareholders. We believe that the stock should appreciate as book value grows via earnings and share buybacks. Finally, we would like to highlight the fact that the net asset value of the Company's real estate portfolio is much higher than book value, perhaps as high as \$48 per share. Hopefully, this discount will narrow as the Company continues to post solid results quarter after quarter.

ABC Funds  
August 5, 2005

## UPDATES (cont'd)

Despite the recent volatility in the equity markets, shares of Morguard Corporation have hardly fluctuated. As an investor, it's nice to have some stocks with tangible assets that are not highly correlated with the equity markets.

In fiscal 2005 Morguard Corporation reported financial results that demonstrated slow and steady growth in shareholder value. Revenue grew to \$400.4 million from \$386.7 million a year ago, an increase of 3.5%. Consolidated funds from continuing operations totaled \$55.2 million, or \$3.85 per fully diluted share. At \$34 per share, Morguard is trading at 8.8 times its fully diluted FFO compared to commercial REITs that trade at 10 to 12 times FFO and residential REITs that trade at 14 times FFO. Low cap rates, stable net operating income and progress on development properties imply a net asset value considerably higher than the current share price.

However, with such an illiquid, closely-held and under-followed stock, how can we confirm that the value exists? Simply watch what management and insiders are doing. For example, in the first quarter of 2006, Morguard continued with its normal course issuer bid and repurchased for cancellation 266,200 shares at an average cost of \$30.25. On January 16 Morguard Corporation bought 350,000 units of Morguard REIT. In the first quarter of 2006, Morguard REIT repurchased for cancellation 578,100 units at an average cost of approximately \$11.40. With Morguard buying its own shares, Morguard buying Morguard REIT's units and Morguard REIT buying its own units, shareholder value continues to grow. We always like to see a Company willing to buy its own shares when they believe them to be undervalued.

ABC Funds

July 7, 2006

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Morguard Corporation continues to be a solid sleeper pick in our ABC Funds' portfolios. The stock reached a 52 week high of \$45 per share this past December and returned over 42% plus dividends in 2006. Despite the Company's low-key nature, management has recently pulled the trigger on several material transactions.

On November 10, Morguard announced that Revenue Properties Limited had completed the acquisition of Sizeler Property Investors pursuant to an agreement reached in August. The transaction, valued at US\$434 million, provides Morguard with an entry into the United States real estate market. Sizeler owned thirty properties, 16 in Louisiana, 10 in Florida and 4 in Alabama. Broken out by usage, the deal involved 2 regional enclosed shopping malls, 13 retail shopping centers and 15 apartment communities.

On December 6, Morguard REIT announced the acquisition of a 600,000 square foot Class A office portfolio in downtown Ottawa. The REIT partnered with a major Canadian pension fund to complete the \$210 million dollar purchase. The portfolio included 3 office towers, which are 99% leased with 79% of the space occupied by government tenants under long-term leases. In addition to the towers, the deal included an adjacent 29,934 square foot parcel of land with approval to build an additional 339,000 to 390,000 square foot office tower.

Finally, on January 2, 2007 Morguard REIT announced the sale of approximately 65% of its 3 million square foot industrial property portfolio for \$156.7 million in two separate transactions. The first deal, which closed December 28, involved 11 properties with 876,000 square feet for \$72 million, or \$82 per square foot. The second transaction, expected to close in the first quarter of 2007, included 9 properties with 1,059,000 square feet for \$84.7 million, or \$80 per square foot.

It is interesting to examine the implications of these three transactions. Morguard is making its first foray into the United States with the purchase of several retail and apartment properties. Morguard has also increased its office portfolio while selling the majority of its industrial properties. Generally, the industrial properties have shorter lease durations and are more sensitive to the economy. It appears that Morguard is upgrading and diversifying its portfolio in an effort to mitigate any further economic weakness in the Canadian economy. Given the recent stock market volatility it is comforting to own Morguard, a low beta stock with solid tangible net asset value.

ABC Funds

January 5, 2007

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As shares of Morguard Corporation continue to climb, we await the Company's full year financials. For the first nine months of 2006, Morguard has already reported impressive results. Consolidated funds from operations increased to \$71.0 million or \$5.09 per share compared to \$66.1 million or \$4.67 per share the previous year. Adjusted for non-controlling interests, Morguard's share of consolidated funds from operations increased to \$3.28 per share compared to \$3.11 per share in 2005.

The Company's portfolio currently consists of 13.9 million square feet of office, industrial and retail assets with a net book value of \$1,619.7 million, a multi-residential portfolio of 6,930 suites with a book value of \$571.5 million, developments totaling \$37.9

## UPDATES (cont'd)

million, land held for sale of \$3.6 million and an investment in a regional shopping centre of \$48.2 million. The net book value of Morguard's revenue producing properties now totals \$2,281.0 million. The weighted average mortgage rate is 5.90% with a weighted average term to maturity of 5.3 years.

The vacancy rate in the commercial portfolio is currently 5.3%, with the industrial segment having the highest vacancy rate of 6%. The residential portfolio vacancy rate is 3.2%, much lower than the December 31, 2005 rate of 5.0% due to aggressive marketing campaigns. Management suggested that although residential rates should remain stable in the near term, commercial rates should improve.

ABC Funds  
March 23, 2007

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The share price of Morguard Corporation has been under pressure in recent months, declining from a high of \$51.95 to reach approximately \$37.00 today. Units of Morguard Real Estate Investment Trust have shown a similar trend, dropping from \$17.15 to \$13.25 since April. Revenue Properties, Morguard's other publicly traded subsidiary, are currently trading at \$12.30, down from a high of \$20.00 per share. The entire sector has had a difficult year, with the S&P/TSX Capped REIT Index down 10.4% and the Dow Jones Composite All REIT Index down 14.6% over the period.

As opposed to any stock specific issues, we believe that Morguard has been unfairly tainted by fears of a US housing collapse and the ensuing credit crunch. Remember that Morguard does not hold any individual home mortgages in the United States. The Company's only exposure to the residential market is through multi-family rental properties and condominiums in Canada and, to a much lesser extent, the United States. We believe that the diversification offered by Morguard's high quality commercial real estate portfolio, including office properties, industrial space and retail locations, should offset any weakness in the residential sector.

So how do we account for the dramatic drop? Why do we think the sell off is overdone? Essentially, we believe that investors were using unrealistically low "cap rates" to discount real estate cash flows throughout the recent boom. Private equity and large hedge funds were able to borrow at astonishingly low rates, especially in Japan and convert the debt to US or Canadian dollars. This "Yen carry trade" allowed transactions to be completed using 6% cap rates that still generated a reasonable economic return. As increasingly expensive transactions were completed, industry participants started applying these unsustainable valuations across the entire real estate spectrum.

However, Morguard never traded anywhere near an overly-hyped valuation. In fact, an 8% cap rate on the Company's net operating income (NOI) implied a net asset value of just slightly over \$50 per share. To demonstrate the sensitivity of this analysis, if we had used a 6% cap rate, Morguard should have traded over \$100 per share. So despite trading at a discount to its peers, Morguard has been unfairly punished as, anecdotally and not unsurprisingly, cap rates have begun to rise. We still believe that a conservative 8% cap rate is appropriate for Morguard Corporation. Therefore, we are comfortable with our analysis indicating that the shares are cheap relative to the Company's net asset value of \$50 per share.

ABC Funds  
December 7, 2007

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The sub-prime mortgage meltdown and related credit crisis have not been kind to the real estate sector. Over the past year, the S&P TSX capped real estate sub-index has declined approximately 25%. Shares of Morguard Corporation have fallen from a 52-week high of \$49.99 to a low of \$30.00, a drop of 40%. Panicking investors simply ignored the Company's high quality, diversified portfolio and stable occupancy levels. Although the shares have since recovered slightly, we believe that the sell-off is excessive.

Thankfully, Morguard's solid 2007 financial results seem to have provided support for the stock. We like to focus on Morguard's share of continuing funds from operations (FFO) to determine the performance of the Company's operations and the valuation of the stock. In 2007, the Company reported continuing FFO of \$87.4 million, an increase of 18.5%. On a fully-diluted share basis, continuing FFO of \$6.20 in 2007 improved from \$5.20 in 2006. Book value, another favourite metric of ours, now totals \$35.64 as of December 31, 2007. With the shares trading at only 5.2 times 2007 FFO and 0.9 times book value, Morguard is a dirt cheap stock.

Management apparently shares our view that its real estate holdings are undervalued. On April 2, Morguard Corporation announced a bid to privatize Revenue Properties Corporation. Remember that RPC is one of Morguard's publicly traded subsidiaries and is a component of our calculation of the Company's net asset value. RPC traded as low as \$10 per share in the days before Morguard announced an opportunistic takeover offer at \$12 per share. Using RPC's 2007 funds from

## **UPDATES (cont'd)**

operations of \$1.73 (down from \$2.03 in 2006), Morguard is paying 6.9x FFO. If we apply this valuation to Morguard Corporation, we can easily generate a target price north of \$42 per share. If the shares of MRC continue to trade at these depressed levels, a privatization bid from the Company's controlling shareholder would not be unexpected.

ABC Funds  
April 18, 2008

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