

WHY BE BULLISH ON FINANCIAL SERVICES?

Income Financial

THE CANADIAN BANKS ARE FIRING ON ALL CYLINDERS

- Record Q2, 2000 earnings well above consensus, strong year over year earnings growth momentum continues
- Strategies and tactics paying off - internet strategies reducing costs, alternative banking channels growing, strong merchant banking returns, focus on wealth management and conversion of transaction revenue streams to fee based revenue streams, improving capital ratios, strong loan portfolios

STRONG MARKET APPRECIATION FOR CANADIAN BANKS IN 2000 YEAR-TO-DATE, BUT PRICES LAG IMPROVEMENT IN UNDERLYING VALUE

- P/E ratios in 10 to 12 range, well below relative TSE average P/E ratios
- ROE rates in high teens
- Dividend yields over 50% of Long Bond yield with expectation of 7 to 10% dividend increase
- 3 of 6 major Banks have announced significant buybacks offering further price performance momentum to stocks and EPS growth
- Prices still well below their pre 1998 proposed merger highs

U.S. BANK CONSOLIDATION EXPECTED TO CONTINUE

- Still too many Banks (approximately 9,000) in the U.S.
- Drive for scale and geographical diversification will cause the consolidation trend of local, regional and Money Center Banks to continue
- U.S. Banks', especially mid-tier banks, market performance has lagged, leaving significant potential premiums on takeovers.

INTEREST RATE INCREASES NEARING PEAK FOR THIS CYCLE

- U.S. Federal rate increases likely to peak over next 2 months with no further increases prior to November U.S. presidential election
- Less pressure on Canadian rates, except to support C\$

FINANCIAL SERVICES LEGISLATION EXPECTED TO CREATE FURTHER OPPORTUNITIES FOR BANKS

- Canadian Federal Financial services legislation (June 2000) should create a regulatory framework that will allow Banks to more actively plan, pursue and execute further strategic expansion initiatives, merger activity within the Canadian Banking sector expected.
- Changes in International standards of the calculation of risk adjusted capital should free up capital for North American Banks for other more productive purposes
- Recent repeal of the Glass Steagal Act in the U.S. to continue to act as impetus for cross sector diversification by U.S. banks

FURTHER CONSOLIDATION EXPECTED IN BOTH THE CANADIAN & U.S. MUTUAL FUND INDUSTRY

- Recent acquisition of Trimark by AIM at substantial premium over recent trading price reinforces likelihood of further consolidation
- Mackenzie, C.I and AGF represent likely targets
- Other Investment Management Companies expected to seek ways, via mergers or acquisitions, of improving scale and diversifying investment style and product mix

RECENT DEMUTUALIZATION IN THE LIFE INSURANCE INDUSTRY TO CREATE FURTHER MERGER AND ACQUISITION ACTIVITY

- Clarica, Manulife, Canada Life, Industrial Alliance and Sun Life have newfound financial flexibility to pursue corporate strategies
- Government imposed moratorium on merger and acquisition activity by the demutualized LifeCo's to be lifted on July 1,2001
- Large Insurance Company demutualization expected to continue in the U.S.

TECHNOLOGY CORRECTION POSITIVE FOR FINANCIAL SERVICES SECTOR

- Current correction and shakeout in Technology sector is causing greater focus on more traditional valuation parameters to value stocks which should continue to benefit financial services stocks with more predictable earnings records, dividend histories and trading at reasonable valuations levels



PERFORMANCE FROM FEB 4, 1999 (INCEPTION) TO MAY 31, 2000

INCOME FINANCIAL (INC.un): +14.1%* S&P Financials: +7.5% TSE Financials: -4.4% S&P MidCap Financials: -18.8%

* distributions reinvested

INCOME FINANCIAL (TSE: INC.UN)

Distribution History: 15 consecutive monthly payments, totaling \$2.99 per unit (includes special)

Current Price: \$23.65

Current Yield: 9.0%¹

¹ Based on base monthly distribution rate, excluding Special Distributions

TOP HOLDINGS

Toronto Dominion Bank, Trimark Financial, CIBC, Bank of Montreal, Mackenzie Financial, National Bank, Kansas City Southern, Royal Bank, Bank of America, Citigroup

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