

Winnipeg has most to lose, or gain, from review of trusts

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TAKING into account the size of the local capital market, Winnipeg has probably benefited more than other cities during the current income trust craze.

If that is the case, then this market has more to lose or gain depending on what comes out of the recently announced federal government review of business trusts.

Of the 32 companies on the *Winnipeg Free Press* /Wellington West Capital Manitoba Index, 10 are trusts. Four are real estate investment trusts (REITs) and six are general business trusts (including the one that owns this newspaper, FP Newspapers Income Fund).

In addition to those, there are three others not yet on the index -- New Flyer Industries and the CanWest MediaWorks Income Fund, whose initial public offerings are in various stages of completion, and Ag Growth income Fund, an agricultural equipment manufacturer based in Rosenort, Man.

CanWest's long awaited income trust that would spin out its newspaper holdings was announced on the same day the feds announced its review, making it potentially one of the newest in the country.

That is fitting because Winnipeg is also home to one of the oldest versions of the income trust in the North West Company Fund, which converted in 1997.

Ian Sutherland, chairman of the board of the North West Co. Fund, figured his company was the first to convert to a trust with no new units sold, and it was the first retailer to become an income trust.

Sutherland said that at least part of the reason for doing the conversion was to make the company more attractive to investors. Also, because many of the publicly traded company's shareholders at the time were pension funds, and pension funds' income is not taxed, it was seen as a move that would definitely favour its investors.

(The underlying attractive feature of the income trust is that the company does not pay corporate income tax, but instead distributes most of its "cash flow" to investors in the form of income, and then those investors are liable to pay tax on it. The motivation for the growth in income trusts is to avoid paying corporate income tax twice -- once by the corporation, and again when the shareholders are taxed on the dividends they earn.)

"The benefits of the income trust to our company is more than we imagined," Sutherland said. "The growth in the sector is also more than we imagined."

Before the NWC converted to an income trust, it was paying an annual dividend of \$0.40 per share. Now each unit earns \$1.88 a year.

Total market capitalization of all forms of trusts across the country have grown from \$18 billion at the end of 2000 to close to \$120 billion at the end of 2004.

Kevin Hooke, the vice-president in charge of corporate finance at Wellington West Capital who is now an experienced income trust hand, agrees with his Bay Street peers who say it shows no sign of abating.

CanWest is looking to raise about \$615 million in equity by selling 28 per cent of its business. That's a huge offering that, by many accounts, will probably receive excellent interest.

In addition to CanWest, both New Flyer Industries and Pollard Banknote are good-sized local institutions that are going public via the income trust route.

Winnipeg is also headquarters to exactly one half of 10 the trusts that are listed in the TSX Venture exchange, home to junior resource, real estate and technology concerns. According to an exchange official, the Winnipeg income trust group on the Venture exchange has already raised more than \$200 million in new equity this year (half of that came from one offering by Huntingdon REIT controlled by the indefatigable Arni Thorsteinson).

It may be coincidental, but since 1997 the number of Manitoba companies that have gone public has increased exponentially compared to any other period in history.

There are a number of reasons why the Manitoba market has been inclined to embrace the income trust structure. One of those probably has something to do with the inherently thrifty nature of Manitoba business people and investors. But whatever the reasons, income trusts have provided a much needed boost to Manitoba capital markets.

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