



## **MACCs SUSTAINABLE YIELD TRUST**



**June 30, 2007  
Semi-Annual Report**

**MANAGER**  
MACCs ADMINISTRATOR INC.

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**CORPORATE INFORMATION**

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## MANAGEMENT REPORT OF FUND PERFORMANCE

This interim management report of fund performance contains financial highlights, but does not contain either interim or annual statements of the Trust. The interim financial statements of the Trust are attached to this report. The interim financial statements have not been reviewed by an auditor. You may obtain a copy of the annual financial statement of the Trust, at no cost, by writing to us at 70 University Avenue, Suite 1200, Toronto, ON M5J 2M4 or by visiting our website at [www.mtauburncapital.com](http://www.mtauburncapital.com) or SEDAR at [www.sedar.com](http://www.sedar.com). The following information should be read in conjunction with the attached financial statements and accompanying notes thereto for the period ended June 30, 2007.

Unitholders may request a copy of the Trust's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure. Unitholders can contact us by writing to us at 70 University Avenue, Suite 1200, Toronto, ON M5J 2M4 or by visiting our website at [www.mtauburncapital.com](http://www.mtauburncapital.com).

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### *Investment Objectives and Strategy*

The investment objectives of the Trust are to maintain an SR-1 Stability Rating from Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") on the units and to provide unitholders with monthly distributions. In order to achieve its investment objectives, the Trust has invested the net proceeds from the issuance of the units, together with borrowings, in a diversified portfolio of income funds, constructed by the Investment Manager based on criteria which it believes are reflective of the requirements for achieving an SR-1 Stability Rating from S&P. The income funds that comprised the portfolio as at June 30, 2007 were selected by the Investment Manager based on the following criteria:

- each income fund was publicly rated by either S&P or Dominion Bond Rating Service Limited;
- each income fund had a minimum float capitalization of \$400 million;
- each income fund had a stability rating of SR-5 or higher (or equivalent); and
- each income fund had a yield of at least 6.50% per annum.

### *Risk*

There were no changes to the Trust during the period that affected the overall level of risk of an investment in the units of the Trust. The suitability and investor risk tolerance characteristics of the Trust remain as disclosed in the Trust's prospectus.

### *Results of Operations*

#### *Portfolio*

As at June 30, 2007, the Trust held 40 income funds in its portfolio, which provided diversification both by issuer and industry concentration.

#### *Net Asset Value*

The net asset value per unit as at June 30, 2007 was \$9.62. The decline in net asset value from the original issue price of \$10.00 reflects the effects of issue costs, ongoing operating expenses and distributions, offset by an increase in net assets from operations.

#### *Distributions*

During the period, the Trust declared distributions of \$0.3336 per unit. A distribution for the month of June 2007 of \$0.0556 per unit was declared. This distribution was paid on July 13, 2007.

#### *Redemptions*

Units may be redeemed annually on July 31. In July 2007, the Trust received notices from unitholders to redeem 1,473,923 units. In addition, the Trust has a mandatory market purchase program under which it repurchases and cancels units under certain circumstances. During the period, the Trust repurchased 11,300 units under this program.

#### *Revenue and Expenses*

For the period ended June 30, 2007, the Trust received investment income of \$1,354,012 and incurred expenses of \$302,078. Substantially all of the Trust's income is derived from distributions received from

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the income funds in its portfolio. The principal components of the Trust's expenses were management fees of \$56,510, dealers' service fees of \$37,115, legal fees of \$34,085, interest and bank charges of \$60,157, administration fees of \$39,812, audit fees of \$34,616 and other expenses of \$39,783.

*Borrowings*

As at June 30, 2007, the Trust had borrowed a total of \$3,284,460 (11.4% of its total assets) under its credit facility in the form of bankers' acceptances and prime rate borrowings, secured by the investments in the portfolio. These borrowings were used to invest in additional income funds to enhance the overall yield of the Trust and to finance certain working capital expenses of the Trust. During the period, the minimum amount borrowed under the credit facility was \$3,188,789 and the maximum was \$3,284,460.

**Recent Developments**

On August 10, 2007 the Trust filed a prospectus qualifying the issuance of up to 1,140,946 additional units by way of a warrant offering. The exercise price of the warrants is \$8.00 and their expiry date is December 13, 2007. The Trust redeemed 1,473,923 units at a net asset value of \$9.489 per unit pursuant to its annual retraction provisions. Securities of the Trust were sold to effect the redemption.

In addition to general equity market conditions, the strength of the Canadian dollar, fluctuations in commodity prices and interest rates are all factors that may affect the income trust market over the next year. The recent changes to the rules governing income trusts enacted by the federal government could have a significant affect upon the value of the Trust's holdings and on the continued availability of suitable investments for the Trust.

**Related Party Transactions**

MACCs Administrator Inc. ("MACCs") is the Trustee and Manager of the Trust and is responsible for providing and arranging for the provision of administrative services required by the Trust. MACCs is paid a management fee equal to 0.45% per annum of the net asset value of the Trust, calculated and payable monthly in arrears. MACCs is responsible for paying the Investment Manager, Fiera YMG Capital Inc., out of this fee.

**FINANCIAL HIGHLIGHTS**

**Financial Highlights**

The following tables show selected key financial information about the Trust and are intended to help you understand the Trust's financial performance for the years shown. This information is derived from the Trust's audited financial statements.

*The Trust's Net Asset Value (NAV) per Unit*

	<b>June 30, 2007</b>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Net asset value, beginning of period	<b>\$8.78<sup>(3)</sup></b>	\$9.87	\$10.00*
<b>Increase (decrease) from operations:</b>			
Total revenue	<b>0.52</b>	0.70	0.50
Total expenses	<b>(0.12)</b>	(0.35)	(0.15)
Realized gains for the period	<b>0.37</b>	0.31	0.26
Unrealized gains (losses) for the period	<b>0.42</b>	(0.81)	0.51
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>1.19</b>	(0.15)	1.12
<b>Distributions</b>			
From income (excluding dividends)	<b>(0.06)</b>	(0.13)	(0.21)
From dividends	<b>(0.02)</b>	(0.05)	(0.04)
From capital gains	<b>(0.16)</b>	(0.33)	(0.25)
Return of capital	<b>(0.10)</b>	(0.18)	(0.07)
<b>Total distributions <sup>(2)</sup></b>	<b>(0.34)</b>	(0.70)	(0.57)
<b>Net asset value</b>	<b>\$9.62</b>	8.81	\$9.87

\* Initial unit value.

(1) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.

(2) Distributions were paid in cash.

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- (3) The relief granted to investment funds by Canadian securities regulatory authorities from complying on an interim basis with Section 3855 results in a difference between GAAP NAV and Transactional NAV due to the differences in valuation techniques of certain investments. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) or ask prices (for investments sold short) to be used in the fair valuation of investments, rather than the use of closing sale prices currently used for the purpose of determining Transactional NAV. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques, rather than the use of valuation techniques by virtue of general practice in the investment funds industry. The provisions of Section 3855 have been applied retroactively without restatement of prior periods. Accordingly, the net asset value at the beginning of the current period has been adjusted.

The layout of the financial highlights has been adjusted to conform to the requirements of National Instrument 81-106. It is not intended that the Trust's Net Asset Value (NAV) per unit table act as a continuity of opening and closing NAV.

***Ratios and Supplemental Data***

	<b>June 30 2007</b>	<b>December 31 2006</b>	<b>December 31 2005</b>
Net assets (000s)	<b>\$25,173</b>	\$22,079	\$33,942
Number of units outstanding	<b>2,616,369</b>	2,507,469	3,439,800
Management expense ratio <sup>(1)</sup>	<b>2.77%</b>	3.69%	10.31%
Management expense ratio before waivers or absorptions <sup>(1)</sup>	<b>2.77%</b>	3.69%	10.31%
Portfolio turnover rate <sup>(2)</sup>	<b>17.22%</b>	86.93%	62.18%
Trading expense ratio <sup>(3)</sup>	<b>0.17%</b>	0.40%	0.54%
Closing market price	<b>\$9.57</b>	\$8.28	\$9.18

- (1) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.
- (2) The Trust's portfolio turnover rate indicates how actively the Trust's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Trust buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.
- (3) The trading expense ratio represents the commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

**PAST PERFORMANCE**

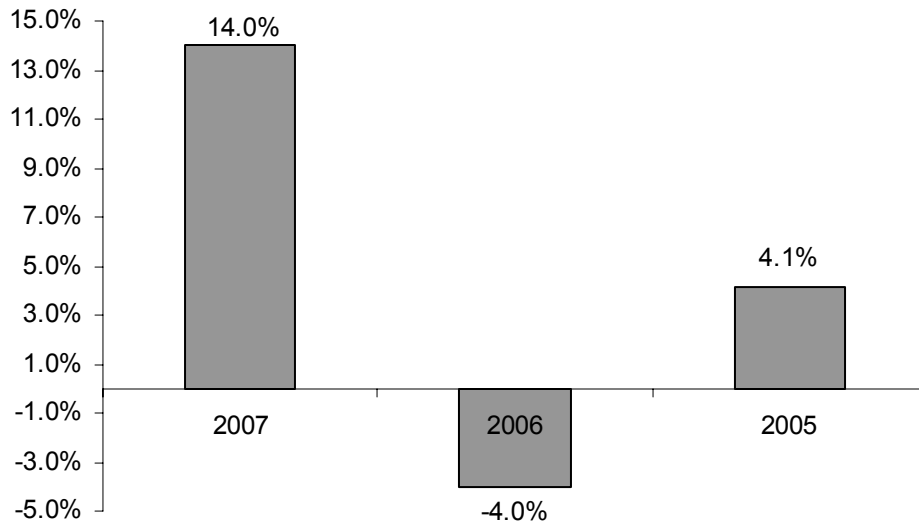
***General***

The performance information shown assumes that all distributions made by the Trust in the periods shown were reinvested in additional securities of the Trust at the then prevailing trading price. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How the Trust has performed in the past does not necessarily indicate how it will perform in the future.

***Year-By-Year Returns***

The bar chart below shows the Trust's performance for each of the periods shown, and illustrates how the Trust's performance has changed from period to period. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial period at the then net asset value per share would have grown or decreased by the last day of such financial period. The annual return for 2005 relates to the period from the date of inception on February 18, 2005 to December 31, 2005 and reflects issue expenses of \$2,382,750. The return for the 2007 is for the period ended June 30, 2007. The returns include the distributions paid on the Trust's units.

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***Annual Compound Returns***

	<b>Six Months Ended June 30, 2007</b>	<b>Since Inception</b>
Units	14.0%	14.0%
S&P/TSX Capped Income Trust Index <sup>(1)</sup>	4.3%	5.6%

<sup>(1)</sup> S&P/TSX Capped Income Trust Index is a broad-based composite index which may encompass any or all Global Industry Classifications Standard sectors of the income trust marketplace. Income trusts that qualify for inclusion derive the distribution income from actual operating entities. Relative weights of individual constituent income trusts are capped at 25%. The number of constituents is not fixed.

**INVESTMENT PORTFOLIO**

***Portfolio Composition as June 30, 2007***

	<b>% of Net Assets</b>
Short-term Investments	3.0
Power and Pipeline Funds	43.5
Business Funds	37.6
Real Estate Investment Trusts	11.9
Oil and Gas Funds	16.9
Other Assets, Net of Liabilities	(12.9)
<b>Total Net Assets</b>	<b>100.0</b>

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<b><i>Top 25 Holdings</i></b>	<b><i>% of Assets</i></b>
EPCOR Power LP	6.0%
Chartwell Seniors Housing Real Estate Investment Trust	5.2%
Bell Aliant Regional Communications Fund	4.0%
Superior Plus Income Fund	3.3%
Northland Power Income Fund	3.2%
The Consumers' Waterheater Income Fund	3.2%
CanWest MediaWorks Income Fund	3.1%
Fording Canadian Coal Trust	3.1%
Noranda Income Fund, Class A	3.0%
Pengrowth Energy Trust	3.0%
Atlantic Power Corp.	3.0%
Harvest Energy Trust	2.9%
Inter Pipeline Fund	2.9%
Keyera Facilities Income Fund	2.7%
Algonquin Power Income Fund	2.7%
Teranet Income Fund	2.6%
Canada Treasury Bills	2.6%
Enerplus Resources Fund	2.6%
TransAlta Power L.P.	2.6%
Borex Power Income Fund	2.6%
Fort Chicago Energy Partners LP	2.5%
CML Healthcare Income Fund	2.5%
Yellow Pages Income Fund	2.4%
Canetic Resources Trust	2.4%
Pembina Pipeline Income Fund	2.3%

The investment portfolio may change due to ongoing portfolio transactions of the Trust. Quarterly updates are available within 60 days of each quarter end by visiting [www.mtauburncapital.com](http://www.mtauburncapital.com) or by contacting the Trust.