Market Commentary
July 2018

SIGNATURE GLOBAL ASSET MANAGEMENT™

Sentry Global REIT Fund

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Summary

For the month-ended July 31, 2018, Sentry Global REIT Fund returned 0.1%. Year-to-date (to July 31, 2018), the fund is up 3.8%.

Contributors to performance

GGP Inc., Simon Property Group and Link REIT – three retail REITs – were the strongest contributors to total return in July.

Detractors to performance

UOL Group Ltd., Kilroy Realty Corp, and City Developments Ltd. detracted from fund performance in July.

Portfolio activity

On June 1, 2018, Lee Goldman and Kate MacDonald joined Joshua Varghese at Signature Global Asset Management, a CI Financial company, to form a dedicated real estate team, assuming management of Sentry Global REIT Fund from its prior manager, Michael Missaghie. The management change, which was many months in the making, was facilitated by a warm and diligent hand-off from Michael Missaghie. The change brings together a team of tenured real estate specialists with an award-winning track record in managing REIT portfolios.

Since assuming management of the fund, the team has selectively recycled capital out of a number of retail holdings, trimming into strength and reinvesting the bulk of proceeds into new residential holdings, including U.S. single-family rental issuers American Homes 4 Rent (NYSE: AMH) and Invitation Homes (NYSE: INVH), and Irish homebuilder Glenveagh Properties PLC (ID: GLV). The fund also participated in two initial public offerings: Minto Apartment REIT (TSX: MI.UN) and Cushman & Wakefield (NYSE: CWK). The market response to the Minto Apartment REIT IPO was particularly strong, with Minto finishing the month up +17%. Cushman & Wakefield commenced trading on August 2, 2018, and was up ~5% in initial trading.

Market Commentary
Second Quarter 2018

Noteworthy developments

- To date, Q2 2018 residential REIT earnings have come in at or better than expected. Recent earnings calls have been upbeat with management teams generally noting strong demand, moderating new supply, rational pricing, and generally improving outlooks. AvalonBay Communities (NYSE: AVB) and Equity Residential REIT (NYSE: EQR) both reported solid operating numbers and increased full-year 2018 funds from operations (FFO) guidance. Hard construction costs are escalating faster than rental rates, which is challenging development economics and should serve to constrain new supply.

- On July 26, 2018, stockholders approved the acquisition of GGP Inc. (formerly General Growth Properties Inc.) by Brookfield Property Partners. The transaction is expected to close by the end of August 2018.

- Other key areas of strength in fundamentals have been in the industrial and office spaces**.** Prologis, a large holding across the Signature funds, including Sentry Global REIT Fund, continues to benefit from its dominant position in the global industrial space, increasing rents to tenants by ~20% on lease expirations. European-focused companies such as Colonial and Gecina are benefiting from strong office fundamentals in core markets of Paris, Madrid and Barcelona, with Colonial's Q2 results revealing 26% rent increases on expiring rents.

Market outlook

While 2010-2016 could be characterized as a rising tide environment for most real estate companies, we believe we have now entered another phase of the listed real estate cycle – one in which a top-down bottom-up, total return oriented fundamental approach to active management is crucial. Global quantitative easing (QE) had far reaching consequences that inflated yield assets everywhere, including REITs. From 2016 through early 2018, we saw a partial unwind of this, as REITs offered lacklustre performance relative to higher growth sectors and significantly underperformed equities. Large global REIT funds experienced significant outflows, adding to the selling pressure. As this occurred however, flows into *direct* property have remained robust, and underlying property prices well supported, as large institutional investors are increasingly viewing direct property as a long-term income-generator and value store within their portfolios. Meanwhile, fundamentals within property sectors started to diverge. Fortunately, there are many companies that are well-positioned in the current environment, with quality portfolios managed by astute and aligned management teams who are able to drive growth in net asset value (NAV) per unit and FFO per unit. These are the companies we are focused on. In addition to the new portfolio additions listed earlier, we are seeing a number of opportunities throughout the U.S. and Europe. We look forward to providing further updates.

Class F Returns (in %) as at June 30, 2018	Year-to-date	1 year	3 year	5 year	Since inception (7/28/2005)
Sentry Global REIT Fund	3.8	9.9	5.1	8.3	6.9

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