

Market Commentary

August 2018



Sentry Global REIT Fund

Lee Goldman, Senior Portfolio Manager, MBA, CFA

Joshua Varghese, Portfolio Manager, CFA

Kate MacDonald, Portfolio Manager, MFin, CFA

Summary

For the month ended August 31, 2018, Sentry Global REIT Fund returned 1.9%. Year-to-date to August 31, 2018 the fund is up 5.8%.

Contributors to performance

InterRent REIT, GGP Inc. and Goodman Group were the strongest contributors to total return in August.

Detractors from performance

Unibail-Rodamco-Westfield, Cushman & Wakefield and Pure Multi-Family REIT detracted from fund performance in August.

Portfolio activity

We took advantage of the quiet end-of-summer period to meet with a number of management teams, U.S. and European REIT analysts, and tour a number of assets. Most recently, we met with Daniel Argiros, CEO of Continuum REIT/Conundrum Capital, a Canadian multi-family residential owner and operator. John Lago, President, and David Cummings, VP, Finance also joined us on the tour. We came away impressed by the assets and site-level staff.

Our favourable disposition to the multi-family residential sector remains resolute, given strongly supportive sector fundamentals, particularly in the Greater Toronto Area and Ottawa. We expect that continued healthy leasing activity and strong occupancy will translate into Net Operating Income (NOI) growth for Continuum, and its publicly-traded peers InterRent REIT and Minto Apartment REIT.

Our recent meetings with Continuum/Conundrum's CEO Daniel Argiros and KingSett Capital's COO and CFO Anna Kennedy highlighted the strong capital-raising environment for direct property fund vehicles. Both groups have successfully raised significant capital year-to-date, indicative of continued strong institutional investor demand for real estate.

Market Commentary

August 2018



 **SIGNATURE**
GLOBAL ASSET MANAGEMENT™

Noteworthy developments

- On August 24, 2018, U.S. sunbelt-focused Pure Multi-Family REIT (TSXV: RUF.UN) announced the termination of its formal process to explore the potential sale of the REIT – a disappointing outcome! For those less familiar with the story, Pure Multi-Family had commenced a strategic review on April 5, 2018 following the issuance of a news release by Electra America (Electra) in which Electra made a proposal to acquire the outstanding units of the REIT for an all-cash purchase price of US\$7.59 per unit. Of the 24 parties who accessed the due diligence data room during the process, only two bidders submitted phase-one proposals on June 6, 2018. No binding proposals were received on the phase-two deadline of July 30, 2018. Still, discussions continued outside of the formal process with one bidder at US\$7.64. However, after a brief exclusivity period in which the bidder could explore financing options, complete confirmatory due diligence and settle on a form of arrangement agreement, the bidder advised on August 23, 2018 that it was no longer pursuing a potential transaction with the REIT. Pure Multi-Family REIT dropped over 10% in subsequent trading. We think the sell-off is overdone and see value at current levels on an absolute and relative basis. Should trading weakness persist, we could see (and would welcome) unitholder activism and/or M&A.
- On August 28, 2018, Brookfield Property Partners (NASDAQ: BPY) completed the acquisition of U.S. retail giant GGP Inc. for US\$9.3 billion. Approximately 110 million BPY units were issued as part of the transaction and ~160 million Class A shares of Brookfield Property REIT Inc., a newly formed entity listed on the NASDAQ under the ticker BPR. As part of the transaction, Sentry Global REIT Fund received BPY shares and U.S. dollars, bolstering the fund's cash position and providing ammunition to deploy opportunistically.
- On August 29, 2018, Unibail-Rodamco-Westfield, a leading owner/developer of shopping centres across continental Europe, the U.S. and the U.K., reported underwhelming first-half 2018 results. U.S. comparable NOI declined by 3%, impacted by several bankruptcies, which drove a 140-basis-point reduction in occupancy. Interestingly, management maintained Unibail's fiscal 2018 guidance, which was set prior to the Westfield (WFD) acquisition, of EUR12.75-EUR12.90 per share for the combined entity, with management noting it needs "more time" to assess the WFD assets. Updated guidance is not expected until February 2019. While patience is required, updated guidance and progress on debt reduction by way of asset dispositions represent potential catalysts for the name.

Market outlook

We continue to see value in Canada, the U.S. and Europe with many quality REITs and real estate companies trading at discounts to Net Asset Value. In the current environment, we remain biased towards the multi-family residential, single family rental, and industrial sectors, and, in particular, quality issuers with an identifiable moat that can continue to capture outsized growth. As rising land prices, labour and construction costs further pressure development yields, we expect to see the supply environment moderate in the U.S., which should translate into improved growth in a number of sectors in the near- to medium-term. Across top

Market Commentary

August 2018



U.S. REIT markets, supply is expected to decline year-over-year in 2019 from 2018 and growth is expected to stack up more favourably relative to the broader market.

Class F Returns (in %) as at August 31, 2018	Year-to-date	1 Year	3 Year	5 Year	10 Year
Sentry Global REIT	5.8	11.6	7.4	9.6	7.6

IMPORTANT INFORMATION

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in security value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Class F securities are generally only available to clients who have a fee-based account with their dealer. CI Investments Inc. does not pay trailing commissions to dealers who sell Class F securities, which means CI Investments Inc. can charge a lower management fee compared to other securities of the same Fund. A lower management fee may positively impact the performance data shown when compared to other securities of the same Fund.

The statements contained herein are based on material believed to be reliable. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete. CI Investments Inc. and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered.

The contents of this piece are not to be used or construed as investment advice or as an endorsement or recommendation of any entity or security discussed.

Certain statements in this document are forward-looking. Forward-looking statements (“FLS”) are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as “may,” “will,” “should,” “could,” “expect,” “anticipate,” “intend,” “plan,” “believe,” or “estimate,” or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what CI Investments Inc. and the portfolio manager believe to be reasonable assumptions, neither CI Investments Inc. nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.

®CI Investments and the CI Investments design and logo are registered trademarks of CI Investments Inc. ™Signature Global Asset Management and ™Signature Funds are trademarks of CI Investments Inc.

CI Investments Inc. is a sub-advisor for certain Sentry Funds. Signature Global Asset Management is a division of CI Investments.

Published September 2018.