Market Commentary
September 2018

Sentry Global REIT Fund

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Summary

For the month ended September 30, 2018, Sentry Global REIT Fund returned -2.4%. Year-to-date to September 30, 2018, the fund is up 3.3%.

Contributors to performance

InterRent REIT, Brookfield Property Partners and Mitsui Fudosan were the strongest contributors to total return in September.

Detractors to performance

SL Green Realty, Deutsche Wohnen and Glenveagh Properties detracted from fund performance in September. We met with Glenveagh CEO Justin Bickle in mid-September, subsequent to the Q1 2018 earnings release, and came away with renewed confidence in the outlook for the overall business and the commuter-belt starter homes market in Dublin.

Portfolio activity

In late September, we attended the BMO Real Estate Conference in Chicago. The conference was well-attended with good representation from U.S.-based investors. The overall tone of the conference was positive with fundamentals viewed as generally healthy in the U.S. and Canada. Technology and disruption were key themes, with implications of co-working (i.e. WeWork), co-living and blockchain topical. The location of Amazon HQ2, Amazon's proposed second corporate headquarters, was also a popular topic, with consensus biased strongly in favour of Washington, DC.

Interestingly, many of our discussions with U.S.-based REIT-dedicated and generalist investors revealed the teams were dedicating more time and resources to Canadian REITs, with a bias toward increasing allocations to Canada. Also at the conference, representatives from Jones Lang Lasalle noted that a number of secondary and tertiary markets were starting to "get the attention they deserve" as commercial real estate investors increasingly look to non-gateway markets for opportunity and as office and industrial tenants increasingly focus on labour availability. We had many constructive one-on-one meetings with U.S.-based management teams across the spectrum –

multi-family residential, industrial, retail, office, hotel and other – and have continued on our path, selectively reducing the fund's exposure to retail while adding to industrial.

Noteworthy developments

- On September 10, 2018, CBRE Canada announced $16.5B of transactions were recorded in Q2 2018, marking the highest level of quarterly investment volume in Canadian history. The figure marked a 38% increase from the previous record total of $12.0B reached in Q1 2017. First-half 2018 investment volume of $26.8B also marks an all-time high for a half-year period. The closing of two major merger and acquisition (M&A) transactions bolstered volume in the quarter: Choice Properties REIT's (TSX: CHP.UN) acquisition of Canadian REIT and Blackstone's privatization of Pure Industrial REIT. Combined, these M&A transactions represented 45% of investment volume in the second quarter. In addition to these sizeable deals, a few large single asset deals also contributed to the record quarter, including Hines and Oaktree Capital Management's $107M purchase of Calgary's First Tower from H&R REIT (TSX: HR.UN) and Dream Office REIT (TSX: D.UN) and Tigra Vista Inc.'s $256M acquisition of Toronto's Parkway Place from Agellan Commercial REIT (TSX: ACR.UN). Toronto and Vancouver remain the hot beds for commercial real estate investment in Canada, with Calgary, Montreal and Edmonton rounding out the top five markets in the second quarter.

- Speaking of record transaction volume… On September 14, 2018, Bloomberg reported that Blackstone is seeking to raise US$18B for its largest global real estate fund yet. The last fund raised by Blackstone totalled US$15.8B in 2015. Earlier this summer, global alternative asset manager The Carlyle Group raised US$5.5B for its eighth, and largest, real estate fund to-date. We continue to see a tremendous amount of capital flow into private equity, and real estate specifically, as large institutional investors seek inflation protection and portfolio diversification. At the recent Bank of America Merrill Lynch conference, a representative for Blackstone noted that Blackstone continues to see REITs as attractive and will continue to seek opportunities and willing sellers.

- On September 26, 2018, we attended the Brookfield Investor Day, where the leaders of the various Brookfield entities presented on the status and outlook for their businesses. We were encouraged by Brookfield Asset Management (NYSE: BAM) in particular, who highlighted the continued growth in institutional capital invested in hard assets such as real estate and infrastructure. As a macro read-through into real estate, we generally believe that this helps to support global property valuations. More specifically to BAM, we think the company is very well positioned to grow its assets under management. BAM effectively outlined a path to get its current Net Asset Value (NAV) from $56 today, to $118 in five years. With the stock trading under US$45, we think BAM offers a compelling investment opportunity.

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- On September 30, 2018, a new trade agreement was reached between the U.S., Canada and Mexico, which is now being referred to as the U.S.-Mexico-Canada Agreement or USMCA. The new agreement modernizes and replaces the 1994 North American Free Trade Agreement. The USMCA agreement is generally viewed as a positive outcome for all of North America, especially Canada and the United States.

Market outlook

The overall tone of recent industry conferences, investor days and meetings with management teams has been positive with frustration over the disconnect between public and private valuations. We continue to see value in Canada, the U.S. and Europe with many quality REITs and real estate companies trading at discounts to NAV. We remain biased toward 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 U.S. REIT markets, supply (excluding self-storage) is generally 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 September 30, 2018	1 year	3 year	5 year	10 year
Sentry Global REIT Fund	9.2	5.9	8.2	8.2

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