Market Commentary
October 2018

SIGNATURE GLOBAL ASSET MANAGEMENT™

Sentry Global REIT Fund

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Summary

For the month ended October 31, 2018, Sentry Global REIT Fund Class F units returned -2.1%. Year-to-date the fund is up 1.1% versus -1.7% for the MSCI U.S. REIT Index.

Contributors to performance

InterRent REIT, American Tower and Simon Properties were the strongest contributors to total return in October.

Detractors to performance

Equinix, Park Hotels & Resorts, and SL Green were the largest detractors from fund performance in October.

Portfolio activity

What a month! Markets around the world had dismal performance in October with the S&P 500 down nearly 7%, Hong Kong's Hang Seng down 10%, and the NASDAQ down 9%, representing the NASDAQ's worst monthly performance since 2008. Global REITs were not unscathed, though fared relatively better with the MSCI World Real Estate Index down 3.6% in U.S.-dollar terms as global interest rates rose during the month.

We welcomed this selloff as we came into the month with a healthy cash position in our portfolio, ready to deploy into high-quality names that sold off with the markets. We took the opportunity to add to select existing positions as well as purchase new names that had been on our watch list. We continue to like the industrial real estate sector as we believe it will continue to benefit from global supply chain changes and therefore added Liberty Property Trust and Duke Realty to the portfolio.

We also exited and reduced weightings in a few names, including selling out of select positions in Hong Kong real estate, and exiting Goodman Group in Australia on valuation. Sale proceeds will be opportunistically recycled into opportunities that have been unduly punished in the recent broad-based selloff.

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We believe listed real estate around the globe is quite attractive, underpinned by solid fundamentals and predictable, growing cash flow streams that we think the markets have overlooked over the past two years of multiple expansion in stock markets.

Noteworthy developments

- In October, an institutional report by FPL Associates of Chicago noted that commercial real estate commitments by public pension funds rose to $17.3B for Q3 2018, which marked the highest quarterly amount in over a decade. This figure was up 84% from the previous quarter and 83% from the previous year. Similarly, according to Preqin, a recent survey of 208 institutional investors in 29 countries released in October, showed allocation targets to commercial real estate (CRE) have continued to migrate higher. According to the survey, allocation targets to CRE climbed to 10.4% in 2018 versus 9.5% invested today. While a 90-basis point differential between target real estate allocations and current allocations sounds insignificant, in dollar terms it equates to $294 billion of dry powder seeking a home in commercial real estate.

- Brookfield's recent fundraising and deployment further underscores the strong institutional appetite for real estate. Following the announcement of two major acquisitions earlier this year (GGP and Forest City), Brookfield confirmed its intent to acquire European-based shopping center company Intu. Intu is a struggling, £2 billion property company that has not had the best track record in public markets. This is typically where Brookfield tends to see opportunity. The deadline for an offer is mid-November.

- Many U.S. REITs reported their Q3 numbers in the last two weeks of October. Fundamentals are generally sound, with specific industries and companies posting particularly strong results. Alexandria Real Estate Equities, a life sciences property company and the fund's largest public holding, posted solid results, pushing rents by 35% on lease expirations as Alexandria continues to be a partner of choice for its growing health sciences tenants.

- On October 30, InterRent, a Canadian multi-family residential REIT, reported strong Q3 results and a +7.4% distribution increase, reflecting a payout ratio of 59% on consensus 2019E adjusted funds from operation (AFFO). Same-property net operating income (SPNOI) was up a strong +12.4% in Q3, marking the fifth consecutive quarter of double-digit SPNOI growth. Apartment fundamentals in InterRent's core markets remain extremely robust, strongly favouring landlords. Property operating improvements as well as a five-basis-point reduction in the overall weighted average capitalization rate to 4.41% drove a fair value gain on investment properties of $75.8M in the quarter ($0.72 per unit). Debt to gross book value at quarter-end was 39.1%, a decrease of 870 basis points from December 2017.

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- We are heading to REITWorld in San Francisco in early November to meet with a long list of companies from around the globe. We look forward to reporting back on our findings and observations.

Market outlook

We continue to see value in REITs and highlight the disconnect between private demand for real estate (which is at record levels) versus demand for REITS (which is at cycle lows). Sentiment on the REIT sector has been muted as growth sectors significantly outperformed globally over the past two years. We see a number of contributors at play that are driving REIT weakness in the current environment: 1) interest rate fears and 2) forced selling by REIT-dedicated funds in Japan, who have been some of the largest investors in U.S. REITs, to fund redemptions. As a result of these factors, many quality REITs are trading at significant discounts to net asset value (NAV) and represent good value. We are finding many opportunities to deploy capital into high-quality companies with well-defined businesses who are able to capture significant rental growth.

Class F Returns (in %) as at October 31, 2018	1 year	3 year	5 year	10 year
Sentry Global REIT Fund	3.6	3.6	7.1	10.3

IMPORTANT INFORMATION

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.

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