Market Commentary
November 2018

SIGNATURE GLOBAL ASSET MANAGEMENT™

Sentry Global REIT Fund

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Summary

For the month-ended November 30, 2018, the Sentry Global REIT Fund Class F returned 3.4%. Year-to-date to November 30, the fund is up 4.5%.

Contributors to performance

Equity Residential, Cushman & Wakefield, AvalonBay, and Americold were the strongest contributors to total return in November.

Detractors to performance

Artis REIT, Brookfield Property Partners, and Monmouth Real Estate detracted from fund performance in November.

Portfolio activity

November started and ended with strong rallies in equity markets, but a two-week mid-month slump, which saw the S&P 500 Index decline more than 6%, kept gains to a moderate level. Overall, the S&P 500 had a return of just over 2% for the month while the S&P/TSX Composite Index was up 1.4%. On both sides of the border, REITs fared better than the broader markets, with the MSCI US REIT Index up a very healthy 4.7% and the S&P/TSX Capped REIT Index up 2.0%. The REITs benefitted from both declining bond yields and generally positive Q3 earnings results. The yield on 10-year U.S. treasuries fell from 3.14% at the end of October to 2.99% at the end of November, while the yield on 10-year Canada bonds went from 2.49% to 2.27%. Slower global growth, increased U.S./China trade tensions, as well as a less hawkish sounding U.S. Federal Reserve all contributed to the lower bond yields.

The fund continues to have a healthy cash position to take advantage of the somewhat volatile markets. During November, the fund increased its weighting in Camden Properties. Camden is a multi-family REIT located primarily in U.S. Sun Belt markets, which are showing improved fundamentals. The fund capitalized on mid-month weakness to buy at an attractive level. The fund also added to its holdings of Liberty Property Trust during the month. Liberty is primarily an industrial focused REIT, located in 13 of the top 15 industrial markets in the U.S. We continue to favour the industrial sector given the strong tailwind from e-commerce and the growing requirements for warehouse and logistics space. Also during the month, the fund sold its two holdings focused on the London office market, Great Portland Estates and Derwent. While both are solid companies, the Brexit risk combined with London office rents, which are likely at their peak, made us cautious on the names.

Noteworthy developments

- On November 1, Artis REIT (TSX: AX.UN) announced in-line third quarter 2018 results and a number of new initiatives, including a 50% cut to its distribution. Despite management commentary regarding the distribution as recent as the Q2 2018 earnings call at which time CEO Armin Martens noted, "In the last 14 years, we've raised the distribution twice. We've never cut and [there is] no discussion of cutting it," the REIT cut its annual distribution from $1.08 per unit to $0.54 per unit, bringing the payout ratio down to ~55% based on 2019E AFFO (which we view as prudent). In addition to the distribution cut, management identified C$800M to C$1B of non-core assets that it intends to sell over the next three years. Management will reallocate capital to fund the REIT's development and intensification pipeline, select acquisitions, the normal-course issuer bid (NCIB) and debt reduction.

- On November 15, the Ontario PC government released its Fall Economic Statement, which included legislation ending rent control for all newly-built or newly-converted rental units going forward while maintaining rent control for existing tenants. While the rent control exemption for new units is intended to remove an impediment to the development of new rental supply, elevated costs including the high cost of land and punitive development charges will continue to constrain new rental supply.

- In late November, we attended the Alexandria REIT investor day in New York. Alexandria is a U.S.-based office REIT which specializes in life science and technology campuses in the key markets of Boston, the U.S. west coast including San Francisco, San Diego and Seattle, and also New York and Maryland. Alexandria reiterated its plan to double its revenues from US$900M to US$1.8B by 2022, and detailed how well protected its balance sheet is in a worst-case macro environment. We walked away with high conviction on our investment in the company and its ability to increase value above and beyond most of its peers, all while trading at a very attractive valuation.

Market outlook

The market took Fed Chair Jerome Powell's comment that the Fed rate was close to the neutral rate as a sign that perhaps the Fed is closer to end of the rate hike cycle than previously thought. While

a 25-basis point increase at its December meeting is still likely, expectations regarding increases in 2019 have come down, with now only one or two expected. In Canada, while a January hike is still possible, given the weakness in oil generally, and in Canadian pricing in particular, many observers believe the Bank of Canada could be on hold for the entire first half of 2019. Longer dated bond yields have had a decent move down in both Canada and the U.S., and the REIT market has reacted positively to that development. REITs generally perform well in a modest economic growth environment, where interest rates are fairly steady and property fundamentals are decent. At this point, it looks like 2019 could be shaping up to unfold in that manner.

Class F Returns (in %) as at November 30, 2018	1 year	3 year	5 year	10 year
Sentry Global REIT Fund	3.9	5.5	8.2	12.8

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