

Real Estate Investment Strategy: Expanded Team & Resources



Signature team to manage Sentry REIT funds Webcast summary – June 2018 Lee Goldman, CFA, Senior Portfolio Manager Joshua Varghese, CFA, Portfolio Manager Kate MacDonald, CFA, Portfolio Manager

Signature Global Asset Management was named portfolio manager of **Sentry Global REIT Fund, Sentry Global REIT Class** and **Sentry Global Real Estate Private Trust**, effective June 1, 2018. This development not only marks a change for the Sentry funds, but heralds the expansion of Signature's real estate investment team and resources. In a webcast on June 7, 2018, the newly formed team of portfolio managers – Lee Goldman, Joshua Varghese and Kate MacDonald – outlined the benefits of these changes and their plans for Signature's real estate investment strategy moving forward. Here are the highlights.

- With the addition of the Sentry real estate funds, Signature now manages over \$3.5 billion in global public real estate securities across its fund lineup. Signature's deep relationship with market participants gives it some of the most in-depth access to company management and expanded investment opportunities in Canada today.
- As part of the broader Signature team, the real estate group has the benefit of enhanced information flow, data and analytics. Signature has a permanent research team based in Hong Kong. Having boots on the ground in Asia provides added insight, comfort and local market knowledge as it relates to real estate investments in Hong Kong, Mainland China and Singapore.
- Another key advantage of a larger team – three portfolio managers at the helm versus one – is that the managers can spend more time sourcing investment opportunities and undertaking deeper dives at the company and at the sub-sector level.

Transition

- The transition from Sentry to the new team has been smooth with the portfolio managers undertaking a detailed study of each individual investment in the funds.
- The team has made some minor adjustments to the portfolio since taking the helm. These decisions and associated changes were minor and largely valuation driven. While the team is excited to deploy capital into a number of its best and highest-conviction ideas that are not currently represented in the portfolio, changes will be measured and affected opportunistically over time.
- The distribution of the Sentry Global REIT Fund will not change. The team views the distribution as comfortable and achievable in the context of the return outlook for the sector.
- The team does not anticipate any adverse tax consequences as a result of the transition.

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- The team will adopt the Signature foreign exchange program – currency will be managed by Signature’s dedicated currency experts. The neutral stance is to have **no hedge on international currencies** and to have a **25% hedge on the U.S. dollar**. This can be adjusted up to a full 100% hedge on foreign holdings. Because these are global funds, the aim is to give clients currency exposure.
- According to Kate MacDonald, “We are taking a balanced approach to all changes in the near term. We do not intend to churn the portfolio as we all agree that Mike [Missaghie of Sentry Investment Management, the former portfolio manager] has positioned the fund well.”

Investment approach

- The group’s top-down, bottom-up approach is focused on company management and asset quality, sustainable payout ratios, and prudent leverage. It is total-return-oriented and seeks to overweight issuers with superior growth profiles that are attractively valued relative to peers, direct property or both.
- The team anticipates that, over time, the fund’s active share will increase as it seeks to capitalize on opportunities outside of the core or index names.
- At this time, the team is focused on reducing the fund’s concentration in retail REITs while bolstering the fund’s exposure to sub-sectors benefiting from stronger tailwinds, which includes the industrial REITs sector. The fund will remain broadly diversified by and across the various sub-sectors.
- The sub-sectors within real estate have unique characteristics and require specific expertise. Accordingly, team members are specializing in particular sub-sectors to ensure they make the most well-balanced decisions for the portfolio.

Five key pillars

- Security selection will remain focused on identifying high-quality companies by incorporating both quantitative and qualitative factors. The key factors driving security selection are:
 1. Management: Quality and track record of corporate management, emphasizing capital allocation decisions, clear vision, strategic focus, and disciplined execution.
 2. Assets: Portfolio quality with focus on difficult to replicate, high barrier to entry, income generating assets.
 3. Balance sheet health and financial flexibility: Prudent leverage and payout ratios.
 4. Superior growth: Ability to generate shareholder value through organ growth via rental / occupancy increases, development, and intensification.
 5. Attractive valuation: Attractive absolute and / or relative valuation versus peers and direct property.

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