

Sentry Global REIT Fund August 2019

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Performance Summary

- For the month ended August 31, 2019, Series F of Sentry Global REIT Fund (the “Fund”) returned 2.9% net of fees. Year-to-date, the Fund is up 18.3%, net of fees.

Contributors to Performance

- Equinix Inc., InterRent REIT and Americold Realty Trust were the top individual contributors to Fund performance in August. Year-to-date, Equinix Inc., Prologis Inc., and Americold Realty Trust are the top contributors to Fund performance.

Detractors from Performance

- Cushman & Wakefield PLC, Park Hotels & Resorts Inc., and Simon Properties were the top individual detractors to Fund performance in August. Year-to-date, Deutsche Wohnen, Simon Property Group Inc., and Glenveagh Properties PLC are the largest individual detractors to Fund performance.

Portfolio Activity and Market Commentary

- Real estate investment trusts (REITs) vastly outperformed broader equities in August, helped by sharply lower bond yields. The MSCI US REIT Index returned 3.4% (in U.S.-dollar terms) in the month, versus 3.2% (in euro terms) for the FTSE EPRA/NAREIT Developed Index, 4.1% for the S&P/TSX Capped REIT Index, and 1.8% for the FTSE EPRA/NAREIT Asia Index (in U.S.-dollar terms).
- During the month, the Fund increased its position in Liberty Property Trust based on a discounted valuation versus peers and as a potential take out candidate, as mentioned in last month’s commentary. The Fund also increased its weighting in MGM Growth Properties LLC, which we feel has one of the best growth profiles among the triple net lease REITs in the U.S.



The Fund decreased its exposure to Federal Realty Investment Trust and exited its positions in Glenveagh Properties and Monmouth Real Estate Investment Corp. as no near- to mid-term catalysts were seen for these names.

News and Noteworthy Developments

- While most U.S. REITs reported Q2 earnings in July, the bulk of Canadian issuers released their results in August. Similar to the U.S., Canadian results were generally strong, with the majority of REITs meeting analysts' expectations, and with a few more "beats" than "misses." As with the U.S. REITs, Canadian residential and industrial real estate companies in particular continue to post solid numbers. We were a bit surprised by the market's reaction to Cushman & Wakefield's earnings, which we viewed as positive, but the stock sold off after the earnings were released. Earnings before interest, tax, depreciation and amortization was 3% ahead of consensus, but the market seemed to focus more on tougher comparisons for the second half of 2019 versus the first half, as well as global macro concerns.
- On August 6, Artis REIT announced that it has retained Citigroup Global Markets Inc. and Scotiabank to provide financial advisory services related to the ongoing strategic review, which was first announced in Q1 2019. Artis has been a very strong performer this year, based both on a potential positive outcome from the strategic review as well as improved operating results.
- Deutsche Wohnen SE stock continued to get hit by talk of a rental rate freeze on Berlin apartments. The latest iteration, which was announced in late August by the Berlin Senate, put fairly low upper limits on monthly rents that could be charged by landlords, but on the positive side will likely not cause many downward rent revisions, as the market had feared. The stock reacted positively to this news but is still well below the levels when the rent freeze discussions first gathered momentum back in early June 2019.
- We spent the last week of August in Singapore meeting with global strategists, REIT analysts and executive teams of some of the largest companies in the region, as well as visiting various properties. A particularly noteworthy property tour consisted of a visit to Funan Mall, redeveloped by CapitaLand Mall Trust to represent the future of shopping. The mall is designed truly with the end-user in mind, integrating online, offline, data and logistics to create a seamless omnichannel experience. It includes co-working spaces and co-living residences that collaborate with retailers to provide fluid experiences to its visitors and residents. We were reminded of the increasing level of operational intensity and creativity



that landlords around the world are going to have to employ to differentiate their assets from other properties in our tech-enabled environment. We met with executives from many property types including office, retail, residential, seniors housing and industrial. There are several companies we will continue to do work on as a result of the trip.

Outlook

- Global bond yields continued their fall in August as U.S.-China trade wars and the general expectations of slower global growth caused investors to push up bond prices and push down yields. In the U.S., 10-year treasury yields fell from 2.02% to 1.50%, while in Canada, 10-year yields declined from 1.48% to 1.16%. Both are very close to the lows reached in mid-2016. Of course, North American yields still look high compared to other developed markets. German 10-year bunds are yielding -0.70%, while in Switzerland 10-year yields are -1.06%, and in Japan they are -0.30%. Based on global rates, yields could fall further in the U.S. and Canada. After cutting rates for the first time since 2008, the U.S. Federal Reserve is widely expected to cut again by 25 basis points at its September meeting, with another cut likely before year end. The Bank of Canada is currently also expected to cut rates prior to year end.
- Lower rates are generally supportive for real estate valuations, as long as economic growth generally, and real estate fundamentals specifically, remain positive. Thus far, we have seen no indication of weakness in the companies we follow, either through their financial results or in conversations with management teams. With the decline in bond yields, public real estate valuations from a yield perspective look attractive, with the implied cap rate spread to 10-year bond yields and yield on REITs versus 10-year bond yields both wider than the historical average.

Series F returns (in %) as at August 31, 2019	Year-to-date	1 year	3 year	5 year	10 year
Sentry Global REIT Fund	18.3	11.3	7.7	7.6	11.6

Inception date: July 28, 2005.

Sources: Bloomberg Finance L.P., Company Reports and Signature Global Asset Management, as at August 31, 2019.

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