Market Commentary
January 2019

SIGNATURE
GLOBAL ASSET MANAGEMENT™

Sentry Global REIT Fund

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Summary

For the year-ended December 31, 2018, Sentry Global REIT Fund Class F returned -0.43% net of fees.

For the month-ended January 31, 2019 the fund returned 6.46%.

Contributors to performance

InterRent REIT, American Tower, and Equity Residential contributed most to performance since Signature became manager of the fund in July 2018.

Prologis, SL Green, and Alexandria were contributors in January 2019.

Detractors to performance

Unibail-Rodamco-Westfield, SL Green and Equinix detracted from fund performance since Signature became manager of the fund in July 2018.

There were no notable detractors in January 2019.

Portfolio activity

Listed real estate performed quite well for most of 2018 however gains for the year were given back during the aggressive December downturn that most markets experienced. The S&P 500 Index was down 9% in December with the MSCI US REIT Index not far behind at -8.2%. The result was a decline in the fund for December of 4.5% and a slightly negative return for the fund for the year. The January market has been more kind to REITs and the fund is performing well.

REIT performance was not ideal in 2018. However, on a relative basis REITs held in very well compared to broad equity markets which were down mid-to-high single digits. REITS entered early 2018 with relatively lower valuations following a period of strong risk appetite that led capital into higher-perceived growth sectors. Therefore, we were not surprised to see REITs fare relatively better as risk aversion entered back into the markets. This confidence shake-up in growth is reflected in a declining U.S. 10-year yield which is now hovering around its 2.7% level from a year ago.

Fundamentals in the REIT space meanwhile have been progressing well. While we are still waiting for most REIT year-end numbers to come in, the REITs we own are generally on track to see escalating cash flows through their ability to re-lease property at higher levels.

The fund took advantage of volatility in December and January, adding to positions in Chartwell Retirement Residences, Tricon Capital Group and Liberty Property Trust. Chartwell is a high-quality owner and operator of retirement homes in Canada, a sector that we believe will continue to benefit from Canada's aging population and their living needs. The fund was able to take advantage of dislocated pricing in Tricon after a sell off took it down to levels below its last equity offering upon its monumental acquisition of Silver Bay in 2017. We saw the opportunity to get a stellar management team and attractive business at a steep discount to fair value. Liberty Property Trust is an industrial real estate owner, trading cheap relative to the fair value of its properties, with solid cash flow growth prospects. We believe there is an added catalyst in the form of a potential sale of the company as buyers for industrial assets remain hungry.

The fund trimmed its position in Dexus Property Group, an Australian office-focused property company that has been benefitting from strong tailwinds in the Sydney office market. We continue to believe in the market and the company but have trimmed the position to take some money off the table. The fund exited its positions in U.K. office players Derwent and Great Portland as uncertainty around Brexit at a late stage in the property cycle gives us pause on that market.

Noteworthy developments

- Two deals of note in the Canadian REIT market give us optimism on the appetite for investment in quality Canadian REITs. In early January 2019, brokers for CT REIT finally cleared their overhang of shares following a disappointing bought deal from November 2018. SmartCentres REIT followed suit with a successful placement of $200 million of shares to investors. This marks a decidedly positive change in investor appetite from the prior month.
- India's first ever REIT initial public offering is scheduled to come onto the scene in early March. We will be heading to India this month to visit the properties and meet with the management team. This marks a significant step for India as REIT legislation has finally been passed to allow stock market investors access to India's commercial property market, and there are apparently some high-quality prospective Indian REITs waiting in the wings to see how the Blackstone deal goes.
- The first few REITS to report year-end numbers and 2019 guidance have begun to report out of the U.S. Prologis (PLD) kicked it off with solid operating numbers showing cash leasing

spreads (rents charged on new leases versus expiring leases) of 11% and free cash flow per share growth of 13.5%. For its 2019 guidance, PLD took a prudent approach to its forecasts to reflect uncertainty on the macro front. Investors quickly shrugged this off and the stock ended positive on the day as industrial fundamentals are still showing no signs of abating. While we continue to be bullish on PLD, we are keeping a close eye on any potential cracks in the business as the stock is reflecting continued uninterrupted growth. U.S. apartment REIT Equity Residential's report showed accelerating earnings with some higher expense growth forecasted. In all, this was an inline quarter and guide. We continue to like the apartment space.

Market outlook

The shine has come off of global growth recently, exacerbated by trade concerns, potentially triggering the "bad means good" environment that we have been accustomed to seeing in the past decade. At the end of last year, it seemed to the markets that the Fed was going to be continuing its hiking path indiscriminately and that was going to injure the economy. Signature's view was that a slowdown in the economy would push the Fed to back off on its hikes. This year with the Fed exhibiting patience in its tightening strategy and questions around global growth arising, we believe a strong setup is presented for assets with visible cash flows such as real estate companies. In such an environment, we see REITs with 5% free cash flow yields and 5-7% free cash flow growth quite attractive. We look to companies with low leverage, low dividend payout ratios, low capital expenditure requirements and in property types and markets with fundamental tailwinds at their backs. We believe the outlook for Sentry REIT is promising for 2019.

Class F Returns (in %) as at January 31, 2019	1 year	3 year	5 year	10 year
Sentry Global REIT Fund	7.3	7.1	8.0	12.8

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November 2018

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