

Market Commentary

February 2019



Sentry Global REIT Fund

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Summary

For the month-ended February 28, 2019, the fund (Class F) returned 1.50% net of fees.

Contributors to performance

Equinix, InterRent REIT and Cushman & Wakefield contributed to fund performance in February.

Detractors to performance

Deutsche Wohnen, Unibail-Rodamco-Westfield and WPT Industrial REIT detracted from fund performance in February.

Portfolio activity

After a strong start to the year across all major markets in January, the performance of listed real estate was a little more mixed in February. Canadian REITs continued to perform well, with the S&P/TSX Capped REIT Index posting a total return of 3.8%. The MSCI US REIT Index gained 0.7%, while the FTSE EPRA NAREIT Developed Europe Index fell by 1.2%, and the MSCI World Real Estate Index posted a small gain of 0.4%.

Most REITs in the U.S. and Canada had reported fourth-quarter and full-year 2018 earnings by the end of February. Results were largely as expected, with few outliers either to the positive or negative. REIT fundamentals are generally healthy across most asset types and geographies. A healthy, albeit likely slowing global economy, combined with interest rates that have been steady to declining over recent months has provided a supportive macro backdrop for REITs.

The fund took advantage of recent strength in Brookfield Property Partners, SL Green and Dexu to exit its positions. Brookfield announced a fairly strong fourth quarter and substantial issuer bid, but

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its higher leverage and capital-intensive office and U.S. mall exposure have us on the sidelines for now. SL Green's main office market of Manhattan is seeing significant supply, and while Dexus' key office markets of Sydney and Melbourne are doing well, valuation seemed to be getting slightly rich. The fund participated in a bought deal by Allied Properties at the end of February to increase its weighting to that name, as fundamentals in its key markets, and particularly Toronto, remain strong.

Noteworthy developments

Americold announced a marketed secondary equity offering of just over 40 million shares on February 28. The deal went well and priced at \$27.75 per share, only about a 1% discount to the stock's previous close. The sellers, YF ART Holdings and GS (Goldman Sachs) Entities, were two of the original sponsors of the initial public offering (IPO). The stock has been a strong performer since its IPO in early 2018, which was priced at \$16 per share.

Several Canadian REITs raised equity during the month of February, including Allied Properties REIT, Dream Industrial REIT, NorthWest Healthcare Properties REIT and Killam Properties REIT. Institutional appetite for most deals was robust; Allied was significantly oversubscribed with strong demand from U.S.-based institutions. Net proceeds from these recent equity issuances will be used to repay outstanding debt and to fund acquisitions/development. We took advantage of select equity issuances to bolt on exposure to our preferred names.

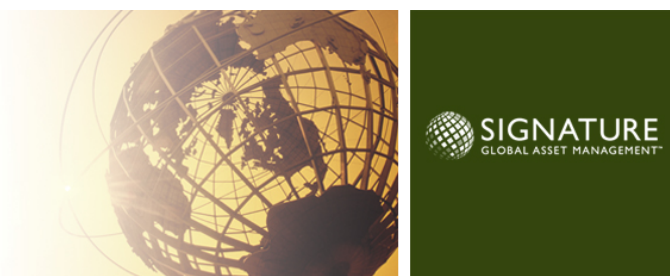
On February 12, First Capital Realty (FCR) made two notable announcements in conjunction with in-line fourth-quarter and 2018 results:

- I. The pursuit of REIT conversion within the next 12 months (which we view as positive and likely to yield index and ETF inclusion and appeal to a broader subset of investors); and
- II. A refined "super urban" mixed-use investment strategy focused on achieving population density of more than 300,000 people within five kilometers of its properties within the next 24 months versus average population density of 250,000 today.

Further, on February 28, Gazit Globe (Gazit) and FCR announced two transactions that will reduce Gazit's ownership in FCR from approximately 79.6 million shares (31.3% ownership) to 21.6 million shares (~9.9% ownership) by way of: a \$742 million share repurchase by First Capital; and a \$453 million bought deal secondary offering by Gazit, both at C\$20.60 per share. The transaction will be subject to a shareholder vote at a special meeting to be held no later than April 18, 2019. Take-up of the \$453 million bought deal was strong, with 58% of the deal allocated to 18 institutional accounts and the balance to retail.

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In early March, we attended the Citi Global Property CEO Conference. The conference was well attended with over 1,300 participants, including representation from 185 U.S. and global corporates. The conference tone was relatively upbeat, with consensus pointing to continued positive, albeit moderating, same property net operating income (SPNOI) growth. A survey of U.S. REIT CEOs showed 2020 SPNOI growth expectations (excluding Lodging) averaged ~2.6%, slightly ahead of 2019 guidance of ~2.5%.

Interestingly, 43% of REIT CEOs in attendance thought there would be fewer publicly traded companies in their sector in 2020, suggesting we may see continued M&A. By asset class, residential and industrial CEOs remained upbeat, while retail CEOs acknowledged a tougher leasing environment given elevated store closures year-to-date in 2019. Retail landlord pricing power remains elusive and down-time is lengthening.

Market outlook

Global stock markets generally kept their upbeat tone in February, as investors seem to be expecting favourable outcomes for both the U.S./China trade conflict and Brexit. Bond yields traded in a narrow band and certainly at the lower end of the range that has existed since the beginning of 2018. The U.S. Federal Reserve has continued its more dovish commentary lately, essentially saying that the current Fed Fund rate is close to neutral, as growth is likely to slow.

As mentioned in last month's commentary, the back-drop of slow but still-positive growth combined with relatively steady bond yields is generally supportive for real estate. Fourth-quarter results were generally healthy and conference call commentary was constructive. We continue to see compelling opportunities for Sentry Global REIT Fund.

| Class F Returns (in %) as at February 28, 2019 | 1 year | 3 year | 5 year | 10 year |
|---|---------------|---------------|---------------|----------------|
| Sentry Global REIT Fund | 10.8 | 7.9 | 7.6 | 13.5 |

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