FIRST ASSET
EXCHANGE TRADED FUNDS
A CI Financial Company

FIRST ASSET CANADIAN REIT ETF
MANAGER COMMENTARY
May 2017
TSX: RIT

Income Generation

The S&P/TSX Capped REIT TR Index returned -0.4% in May versus -1.3% for the S&P/TSX Composite TR Index. South of the border, the MSCI U.S. REIT Index was down -0.6% for the month, lagging the +1.4% S&P 500 TR Index return (both in U.S. dollar terms). In contrast, the First Asset Canadian REIT ETF (the "Fund") was up +1.3% net of fees for the month. For the one-year period ending May 31st, the First Asset Canadian REIT ETF returned +14.3% net of fees, outperforming the S&P/TSX Canadian REIT TR Index, up +7.7%, by over 650 basis points for the period.

The Canada 10-year bond yield concluded the month at 1.42%, down 13 basis points month-over-month, and 45 basis points below its 2017 peak of 1.87% reached in March. As a group, Canadian REITs are now trading at a 427 basis point spread to the 10-year bond yield, 86 bps above the long-term average of 341 bps and 117 bps above the normalized (ex-financial crisis) long-term average of 310 bps.

As we noted last month, recent trading has continued to favour certain names and sectors at the expense of others, and as such, a number of higher quality REITs and real estate operating companies are trading at notably higher discounts and represent good value. We have continued to recycle capital accordingly.

In early May, a series of filings confirmed activist investors FrontFour Capital Group and Sandpiper Group had taken a sizeable stake in Granite REIT (TSX: GRT.UN) and had initiated discussions with Granite's board and a few large unitholders. On May 8th, FrontFour Capital and Sandpiper press released a detailed plan for significant value creation at Granite REIT at www.unlockvalueatgranite.com. In a sharply worded press release, FrontFour and Sandpiper describe Granite as a REIT "plagued by inaction, a culture of entitlement and a discounted valuation" with a management team and board that has "failed to achieve its self-imposed strategic objectives of balance sheet utilization, tenant diversification, and expense reduction". The group, who estimates Granite's fair value at $60+ per unit using an NAV build-up approach, laid out 5 actionable steps to unlock value: i) reset board structure and compensation, ii) reduce General And Administrative Expenses, iii) accelerate acquisitions to utilize balance sheet capacity and reduce tenant concentration risk, iv) refocus Granite's capital allocation strategy, and v) educate investors on the portfolio's value. The group believes a management and board shake up is required and intends to nominate three independent trustees with real estate experience at the June 15th annual general meeting. On May 26th, the group announced that they had filed a dissident proxy circular nominating the following individuals: Al Mawani, former President & CEO of SmartREIT; Peter Aghar, former President & Chief Investment Officer of KingSett Capital; and Samir Manji, former Founder, Chairman and CEO of Amica Mature Lifestyles. While we understand and agree that there is merit to certain aspects of the activists' plan, we do not agree on all fronts. We do, however, welcome activism and agitation within the REIT sector and would not be surprised to see shake up within certain names in the future. In the interim, the fund has benefitted from recent trading strength in Granite REIT units and we continue to monitor the situation.

For the month, the Fund's top performing equity holdings and approximate contributions to total return were: Tricon Capital Group, contributing 32 bps; Pure Multi-Family REIT, contributing 21 bps; and Dream Global REIT, contributing 16 bps. Equity holding that detracted from the Fund's performance in May included Smart REIT (-8 bps), RioCan REIT (-7 bps), and Morguard Corp (-5 bps).

Notable news for May:

- On May 15th, Chartwell Retirement Residences (TSX: CSH.UN) announced the acquisition of three retirement residences totalling 522 suites in Ontario for an aggregate purchase price of $121.0M or $231,800 per suite. The current occupancy for this portfolio is 82%.

- On May 16th, Dream Global REIT (TSX: DRG.UN) announced a €95.9M (CAD$143.0m) acquisition in Brussels, Belgium. The REIT has acquired all shares issued by SPE III Runway SPL, a Belgian entity that holds its main asset Airport Plaza, a multi-tenant office complex. The purchase price represents a going in capitalization rate of 7.1%.

- On May 17th, Cadillac Fairview celebrated the ground breaking of its new $479M office tower at 16 York St in Toronto's South Core district. Cadillac is proceeding with the construction of the tower "on spec".

- On May 18th, Agellan Commercial REIT (TSX: ACR.UN) announced the acquisition of eight industrial properties in suburban Chicago, Illinois. The acquisition comprises approximately 314,000 square feet of GLA and was acquired for US$28.0M before closing costs, representing a going-in capitalization rate of ~7.7%. The properties are fully-leased to 17 tenants and have a remaining weighted average lease term of ~4.6 years.

- On May 23rd, H&R REIT (TSX: HR.UN) announced the nomination of two new trustees (which included Alex Avery, former REIT Analyst at CIBC) and the adoption of a new "say-on-pay" vote on its compensation practices. Highlights of the proposed compensation program include market-aligned annual salaries with greater emphasis on performance based compensation, including a greater focus on FFO and relative one-year total shareholder return relative to peers.

The Fund's top ten holdings at May 31st included Pure Multi-Family REIT, Canadian Apartment Properties REIT, First Capital Realty, RioCan REIT, H&R REIT, Morguard North American Residential REIT, Killam Apartment REIT, Canadian REIT, Tricon Capital Group, and InterRent REIT. Combined, these holdings represent ~41% of the Fund. The Fund remains biased towards REITs with quality assets, value add development and intensification potential, exposure to higher growth markets, low payout and leverage ratios, and less dependence on the capital markets to execute their strategy.

Fund Performance

	1 Month	3 Month	6 Month	YTD	1 Year	3 Year	5 Year	10 Year	SI
First Asset Canadian REIT ETF	1.26%	3.46%	11.87%	8.96%	14.27%	13.17%	10.97%	7.71%	11.21%
S&P/TSX Capped REIT TR Index	-0.36%	1.37%	8.68%	4.81%	7.74%	6.01%	5.59%	6.04%	9.74%
S&P/TSX Composite TR Index	-1.33%	0.43%	3.19%	1.50%	12.27%	4.73%	9.15%	3.88%	7.38%
S&P 500 TR Index	1.41%	2.57%	10.81%	8.66%	17.47%	10.14%	15.42%	6.94%	8.08%

Source: First Asset as at May 31, 2017

Inception date: Nov 15, 2004[1]

S&P/TSX Capped REIT Total Return Index is a capitalization-weighted index designed to measure market activity of the real estate sector issuers listed on the Toronto Stock Exchange. The Index is used as a benchmark to help you understand the Fund's performance relative to the general performance of the Canadian real estate sector.
The S&P/TSX Composite Total Return Index is a capitalization-weighted index designed to measure market activity of stocks listed on the Toronto Stock Exchange. The Index is used as a benchmark to help you understand the Fund's performance relative to the general performance of the broader Canadian equity market.
The S&P 500 Total Return Index tracks 500 large-cap U.S. stocks representing all major industries. The Index is used as a benchmark to help you understand the Fund's performance relative to the general performance of the broader U.S. equity market.

Lee Goldman, CFA
Senior Vice-President & Portfolio Manager
First Asset Investment Management Inc.

Mr. Goldman actively manages the:

First Asset Canadian Convertibles Fund
First Asset Diversified Convertible Debenture Fund
First Asset North American Convertibles Fund
First Asset Canadian Convertible Bond Fund
First Asset Canadian Energy Convertible Debenture Fund
First Asset Canadian REIT ETF
First Asset REIT Income Fund
First Asset Canadian Convertible Bond ETF

Kate MacDonald, MFin
Portfolio Manager
First Asset Investment Management Inc.

Ms. MacDonald co-manages the:

First Asset Canadian REIT ETF
First Asset REIT Income Fund

[1]The indicated rates of return are the historical annual compounded total returns, including changes in unit value and do not take into account sales, redemption or optional charges or income taxes payable by a security holder that would have reduced returns.Performance is calculated net of fees. The Fund was originally launched as a TSX-listed closed-end fund on November 15, 2004, and converted into an exchange traded fund on July 14, 2015. Performance shown is since inception of the closed-end fund. In connection with the conversion, and pursuant to unitholder approval, the annual management fee payable by the Fund to First Asset, as manager, was reduced to 0.75% (from 1.05%) of the NAV per unit and certain changes were made to the investment objectives, strategies and restrictions applicable to the Fund. Material among these changes is the ability for the Fund to invest up to 30% of its portfolio in securities of real estate issuers listed on non-Canadian stock exchanges and the Fund will no longer be permitted to use leverage. Had these changes been in effect prior to this date the performance of the Fund could have been different. On August 17, 2007, pursuant to unitholder approval, the Fund`s mandate was changed from that of a passively managed fund to that of an actively managed fund including the elimination of the market cap size restriction and the annual management fee payable by the Fund to First Asset, as manager, was increased to 0.75% (from 0.45%) of the NAV per unit. Had these changes been in effect prior to this date the performance of the Fund could have been different.

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FIRST ASSET

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