FIRST ASSET CANADIAN REIT ETF

MANAGER COMMENTARY

September 2018

TSX: RIT

The S&P/TSX Capped REIT TR Index returned -0.3% for the month-ended September 30th versus -0.9% for the S&P/TSX Composite TR Index. In comparison, the MSCI U.S. REIT Index was down -2.6% in September versus +0.6% for the S&P 500 TR Index, both in U.S. dollar terms. Year to date, the S&P/TSX Capped REIT TR Index is up +9.8%, still generously ahead of the +1.4% return for the S&P/TSX Composite TR Index. For the month, the First Asset Canadian REIT ETF (the "Fund") returned -0.4% net of fees.

We continue to see value in the Canadian REIT sector with the group trading at a mid-single digit average discount to Net Asset Value ("NAV"). In late September, we attended the BMO Real Estate Conference in Chicago. The conference was well-attended with good representation from U.S.-based investors. Technology and disruption were key themes at the conference, with implications of co-working (i.e. WeWork), co-living and blockchain topical. Amazon HQ2 was also a hot topic, with consensus biased strongly in favour of DC. Interestingly, many of our discussions with U.S.-based REIT-dedicated and generalist investors revealed the teams were dedicating more time and resources to Canadian REITs, with a bias towards increasing their allocations to the Canadian market.

Top performing REITs and REOCs for the month of September included Morguard Corporation, Brookfield Property Partners, Partners Real Estate Investment Trust, Pure Multi-Family REIT LP, and Canadian Apartment Properties Real Estate Investment Trust. The worst performing REITs and REOCs for the month included Temple Hotels Inc., Extendicare Inc., Automotive Properties REIT, WPT Industrial Real Estate Investment Trust, and PROREIT. We recently took advantage of selling pressure in WPT Industrial Real Estate Investment Trust to add to our position.

Year-to-date, Canadian Industrial and Multi-Family Residential REITs have delivered sector-leading total returns. The supply/demand imbalance is skewed in favour of industrial and apartment landlords, particularly in the Greater Toronto Area ("GTA") and Greater Vancouver Area ("GVA,") and we don't anticipate this trend will abate near-term. While cap rates have compressed over time, key industry players expect we could see continued cap rate compression (i.e. real estate valuations increasing). Granite REIT CEO Kevan Gorrie, the former CEO of PIRET which was taken private by Blackstone earlier this year, noted cap rates could trade with a 2-handle in the GTA versus low 4%-range today for Class A industrial, given the outlook for "extraordinary rental rate growth" in the near- to medium-term. Similar to Industrial, Multi-Family is benefitting from strong industry tailwinds. In Canada, historically high levels of immigration and population growth, improved employment conditions for younger households and elevated home prices have bolstered demand for apartments, particularly in the GTA and GVA. Our largest holding in the First Asset Canadian REIT ETF (TSX: RIT), Canadian Apartment Properties Real Estate Investment Trust, has been a significant beneficiary of these trends.

News and noteworthy for this month:

- On September 10th, CBRE Canada announced $16.5B of transactions were recorded in Q2 2018, marking the highest level of quarterly investment volume in Canadian history. Q2 2018's $16.5B marked a 38% increase from the previous record total of $11.97B reached in Q1 2017. First-half 2018 investment volume of $26.8B also marks an all-time high for a half-year period. The closing of two major M&A transactions bolstered volume in the quarter: Choice Properties REIT's (TSX: CHP.UN) acquisition of Canadian REIT and Blackstone's acquisition of PIRET. Combined, these M&A transactions represented 45% of Q2 2018's investment volume. In addition to these sizeable deals, a few large single asset deals also contributed to the record quarter, including Hines and Oaktree Capital Management's $107M purchase of Calgary's First Tower from H&R REIT (TSX: HR.UN) and Dream Office REIT (TSX: D.UN) and Tigra Vista Inc.'s $256M acquisition of Toronto's Parkway Place from Agellan Commercial REIT (TSX: ACR.UN). Toronto and Vancouver remain the hot beds for commercial real estate investment, with Calgary, Montreal and Edmonton rounding out the top five markets in Q2.

- Speaking of record transaction volume… On September 14th, Bloomberg reported Blackstone is seeking to raise US$18B for its largest real estate fund yet. The last fund raised by Blackstone totaled US$15.8B in 2015. Earlier this summer, global alternative asset manager The Carlyle Group raised US$5.5B for its eighth – and largest real estate fund to-date. We continue to see a tremendous amount of capital flow into private equity, and real estate specifically as large institutional investors seek inflation protection and portfolio diversification.

- Also on September 14th, Agellan Commercial REIT responded to market speculation, confirming that a strategic review process is ongoing and that its Board has engaged RBC Capital Markets and Wells Fargo Securities as financial advisors. We have long viewed Agellan as a potential takeout target and with the recent internalization of management, sale of Parkway Place, the shift in focus to pure-play U.S. industrial (84% of Gross Leasable Area), and its strong balance sheet, the REIT is likely more attractive to potential acquirers.

- On September 17th, Scott Galloway (NYU Professor and Gartner L2 founder) spoke at the 2018 Recode conference regarding retail and technology. The segment is available on YouTube – and is worth watching. In it, Scott provides some interesting colour commentary on the "great white shark" that is reshaping the business of retail and the economy: Amazon. Already, Amazon commands 49% of total U.S. retail e-commerce sales – i.e. $1 of every $2 spent online flows through Amazon. The numbers are staggering. During the talk, Scott emphasizes how difficult it has been for other retailers to compete with Amazon. He notes that since the great recession, Walmart has paid US$64B in corporate income tax while Amazon, over the same period, has paid a paltry $1.4B. Despite this structural inequality, some firms are landing a counter punch on Amazon, notably in online grocery. Scott points to Walmart's free grocery pickup – "click-and-collect" – and the advantage of giving shoppers the option of buying online without the costs and complexity of home delivery (no one home to receive delivery, porch piracy…) In his estimation, the majority of U.S. households aren't set up for last mile delivery and 40 to 60 per cent of the U.S. population can go 2-3 minutes out of their way to-or-from work to pick up groceries. Scott predicts Walmart, not Amazon, will be the 2018 grocery winner and that Amazon's fresh grocery offering will continue to underwhelm.

- On September 18th, Canadian Apartment Properties Real Estate Investment Trust (TSX: CAR.UN) announced the acquisition of 13 properties in the Netherlands totalling 535 residential suites (122 single family rental homes + 413 multi-family rental) for €107.5M, funded by a new €64.5M LIBOR loan (7-year term at 1.85%) and CAPREIT's existing EURO credit facility. Closing of the transaction is anticipated in December 2018. Post closing, CAPREIT's suite count in the Netherlands will grow to over 2,600 (~5% of total suites and MHC sites) – still small in the context of the overall portfolio.

As we look forward to 2019, our sector stance continues to favour Multi-Family, Industrial, Seniors Housing, and defensive daily necessity-oriented Retail. The Fund's top ten holdings at September 30th included Canadian Apartment Properties Real Estate Investment Trust, Killam Apartment REIT, InterRent REIT, Morguard North American Residential REIT, Tricon Capital Group Inc., RioCan Real Estate Investment Trust, First Capital Realty, Dream Industrial REIT, Pure Multi-Family REIT LP and Allied Properties REIT. Combined, these holdings represent 42% of the Fund.

Fund Performance (%)

	1 Month	3 Month	6 Month	YTD	1 Year	3 Year	5 Year	10 Year	SI
First Asset Canadian REIT ETF (RIT)	**-0.41**	**2.59**	**7.85**	**7.97**	**12.52**	**12.53**	**12.34**	**11.88**	**10.90**
S&P/TSX Capped REIT TR Index	-0.33	3.54	8.36	9.81	16.20	10.99	9.03	10.25	9.88
S&P/TSX Composite TR Index	-0.89	-0.57	6.16	1.36	5.87	9.70	7.81	6.30	7.28
MSCI U.S. REIT Index	-2.60	1.09	11.30	2.30	3.74	7.72	9.16	7.50	7.70
S&P 500 TR Index	0.57	7.71	11.41	10.56	17.91	17.31	13.95	11.97	9.04

Source: Morningstar as at September 30, 2018

Inception date: Nov 15, 2004[1]

Lee Goldman, CFA, MBA
Senior Portfolio Manager
Signature Global Asset Management.

Mr. Goldman activley 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 REIT Income Fund
Sentry Global REIT Fund
First Asset Canadian REIT ETF
First Asset Canadian Convertible Bond ETF

Kate MacDonald, CFA, MFin
Portfolio Manager
Signature Global Asset Management.

Ms. MacDonald co-manages the:

First Asset Canadian REIT ETF
First Asset REIT Income Fund
Sentry Global REIT Fund

1. RIT 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 RIT 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 RIT to invest up to 30% of its portfolio in securities of real estate issuers listed on non-Canadian stock exchanges and RIT is no longer permitted to use leverage. Had these changes been in effect prior to this date the performance could have been different. 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.

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.
MSCI USA IMI Real Estate Index is designed to capture the large, mid and small cap segments of the US real estate equity universe. The Index is used as a benchmark to help you understand the Fund's performance relative to the general performance of the US real estate sector.

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