FIRST ASSET CANADIAN REIT ETF

MANAGER COMMENTARY

December 2018

TSX: RIT

Risky assets sold off sharply in late 2018 as recession fears, trade tensions and political uncertainty loomed. Despite elevated market volatility, Canadian real estate investment trusts ("REITs") fared comparatively well, in December and calendar 2018. For the month, the S&P/TSX Capped REIT Index was down -3.4% versus -5.4% for the S&P/TSX Composite Index, and -8.2% (in U.S. dollar terms) for the MSCI U.S. REIT Index. For the year, the S&P/TSX Capped REIT Index was up +6.3% versus -8.9% for the S&P/TSX Composite Index, and -4.5% (in U.S. dollar terms) for the MSCI U.S. REIT Index. In comparison, the First Asset Canadian REIT ETF (the "Fund") returned -3.4% for the month of December to finish the year up 4.0% net of fees.

Individual REIT total returns were highly bifurcated in 2018, with significant divergence between the top and bottom performers. By property type, multi-family residential and industrial REITs outperformed, backed by industry tailwinds (e-commerce, distribution/logistics, the USMCA agreement in principal, and the low Canadian dollar) and a strong operating environment (muted new supply, record-low availability, and strong tenant demand), while seniors housing underperformed, largely due to supply-related concerns. As we enter the new year, Canadian and U.S. REITs are trading, on average, at double-digit discounts to net asset value ("NAV"), and (we think) offer compelling value at current levels. In the current environment, we remain biased towards REITs and real estate operating companies with quality, well located assets; strong balance sheets; above-average Net Operating Income ("NOI"), NAV per unit and adjusted funds from operations ("AFFO") per unit growth profiles, and those that are attractively valued versus peers and/or direct property. On a debt to gross book value basis, many large cap Canadian REITs have reduced leverage significantly over recent years, and efforts continue with capital recycling, debt repayment and unit buybacks the focus of many management teams.

In early January, we attended a real estate conference organized by U.S.-based independent research firm Green Street Advisors in Newport Beach, CA. Attendance was strong, and the tone of the presentations and panel discussions was generally upbeat. An informal survey of conference attendees, which included a diverse group of equity, fixed income and direct property owners/developers, showed about 70% of attendees expected direct property valuations would remain flat in 2019. Property operating fundamentals remain broadly healthy and the appetite/depth of bid for quality urban assets remains strong. We continue to believe that valuations have a built-in buffer to absorb slow and steady increases in the yield curve.

We continue to see a marked disconnect between private (i.e. direct property) and public (i.e. REIT) valuations across most property types. Since 2013, capitalization rates have held relatively steady despite bond yields dipping lower (and trending higher) over the period. Green Street Advisors recently released its December 2018 Commercial Property Price Index, which tracks U.S. commercial real estate across all sectors. While unchanged in December, the index increased by 2% in 2018, nearly identical to gains seen in 2016 and 2017. Recent cap rate surveys, discussions with brokers and public/private real estate owners, property tours and transaction data reinforce the same. We expect the depth of bid and real estate pricing to remain favourable in 2019, as many institutional investors remain meaningfully underinvested in real estate – despite rising allocation targets, as tracked by alternative assets data provider, Preqin. (According to Preqin, commercial real estate dry powder reached US$300B in September 2018, up 4% since year-end 2017. That's a lot of capital seeking a home in real estate!)

We expect to see continued REIT mergers and acquisitions (M&A) in 2019, on the heels of active M&A/privatizations in 2018 and 2017 (both by number of deals and absolute dollar value), given attractive values on offer in the public market. At the recent Green Street conference, Managing Director Peter Rothemund questioned why any astute institutional investor would buy direct property today when quality REITs are trading at notable double-digit discounts, providing opportunity for investors to acquire interests in or whole portfolios, at compelling discounts.

By sector, we expect many of the trends that dominated 2018 will carry into the new year:

- Apartment availability in Vancouver and the Greater Toronto Area remains exceptionally tight, benefitting apartment landlords, such as Canadian Apartment Properties REIT, InterRent REIT, Minto Apartment REIT, and to a lesser extent, Morguard North American Residential REIT. The 2018 Rental Market Report published by the Canada Mortgage and Housing Corporation ("CMHC") in October showed that national average vacancy had dropped 60 basis points year-over-year to 2.4%, falling below the 10-year national average of 2.9%. In the absence of material near-term supply growth (purpose-built, multi-family residential units under construction across Canada's VECTOM markets – Vancouver, Edmonton, Calgary, Toronto, Ottawa and Montreal – represents a muted ~1.8% of total inventory), we expect continued strong demand will translate into continued rental rate growth.

- Demand growth for industrial space remains strong, supported by e-commerce distribution/logistics. National industrial vacancy of 3.3% (down 100 basis points year-over-year) is near record-lows. Q3 data from CBRE, a leading real estate services firm, showed new construction remains muted at 1.1% of national inventory.

- We're on the cusp of significant demand growth for seniors housing, given the aging Baby Boomer population. Seniors housing REITs (Chartwell Retirement Residences and Sienna Senior Living) are both trading at discounted valuations, and we think offer good value here. Chartwell Retirement Residences will provide enhanced disclosure on new construction (something the broader industry is lacking), which should (we think!) ease investor concerns about the new supply environment.

- The Toronto, Vancouver and Montreal office markets are trending well, driven by low vacancy and healthy tenant demand. We remain cautious on Calgary and Edmonton, as we continue to believe a recovery in these markets is years away. With 6.1M square feet of office currently under construction in downtown Toronto (6.9% of inventory at Q3 2018), it is a market we're monitoring closely.

- While underlying retail results have been steady, a significant valuation disconnect remains as investor sentiment remains broadly biased against retail. Investor appetite and depth of bid for lower productivity malls, particularly those in secondary and tertiary markets, is slim to nil. With a number of shopping centres currently being marketed for sale, we may see trades reset market cap rate expectations higher (and retail real estate valuations lower). Given these dynamics, we continue to favour REITs and real estate operating companies (REOCs) with higher productivity centers in urban and transit-oriented locations.

We have entered the year with healthy cash balances and are well positioned to take advantage of market volatility. As we look forward to 2019/2020, our sector stance continues to favour multi-family, industrial, seniors housing, and defensive daily necessity-oriented retail. The fund's top 10 holdings at December 31st included Canadian Apartment Properties REIT, InterRent REIT, Morguard North American Residential REIT, Killam Apartment REIT, H&R REIT, Allied Properties REIT, First Capital Realty, RioCan REIT, WPT Industrial and Pure Multi Family REIT. Combined, these holdings represent 43% of the Fund's portfolio.

Fund Performance (%)

	1 Month	3 Month	6 Month	YTD	1 Year	2 Year	3 Year	5 Year	10 Year	SI[1]
First Asset Canadian REIT ETF (RIT)	**-3.43**	**-3.71**	**-1.21**	**3.97**	**3.97**	**7.88**	**11.08**	**10.71**	**14.66**	**10.40**
S&P/TSX Capped REIT TR Index	-3.42	-3.18	0.25	6.32	6.32	8.08	11.17	7.65	13.98	9.44
S&P/TSX Composite TR Index	-5.40	-10.11	-10.62	-8.89	-8.89	-0.30	6.37	4.06	7.92	6.37
MSCI US REIT NR Index (USD)	-8.38	-7.05	-6.33	-5.83	-5.83	-1.16	1.53	6.43	10.75	–

Source: Morningstar Direct and First Asset as at December 31, 2018.

Inception date is November 14, 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
First Asset Canadian REIT ETF
First Asset Canadian Convertible Bond ETF
Sentry Balanced Income Portfolio
Sentry Conservative Income Portfolio
Sentry Defensive Income Portfolio
Sentry Global REIT Class
Sentry Global REIT Fund
Sentry Growth and Income Portfolio
Sentry Growth Portfolio

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 Balanced Income Portfolio
Sentry Conservative Income Portfolio
Sentry Defensive Income Portfolio
Sentry Global REIT Class
Sentry Global REIT Fund
Sentry Growth and Income Portfolio
Sentry Growth Portfolio

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.

1. 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.

Use of Benchmarks:
The S&P/TSX Capped REIT 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 broader Canadian real estate sector.

The S&P/TSX Composite Index is a capitalization-weighted index designed to measure market activity of stocks listed on the Toronto Stock Exchange. This index is used as a benchmark to help you understand the Fund`s performance relative to the general performance of broader Canadian equity market.

The MSCI US REIT Index (USD) is a market capitalization weighted index that captures the large, mid and small cap segments of the USA 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 USA real estate sector.

1 (877) 642-1289 | www.firstasset.com | info@firstasset.com

FIRST ASSET

First Asset - **Smart Solutions™**

First Asset, a CI Financial Company, is a Canadian investment firm delivering a comprehensive suite of smart ETF solutions. Rooted in strong fundamentals, First Asset's smart solutions strive to deliver better risk-adjusted returns than the broad market while helping investors achieve their personal financial goals.

1901-019I.E (01/19)