FIRST ASSET CANADIAN REIT ETF
MANAGER COMMENTARY
January 2019
TSX: RIT

Markets rebounded strongly in early January as recession fears, trade tensions and political uncertainty eased, and investors took note of discounted valuations following the December sell-off. Canadian real estate investment trusts ("REITs"), as represented by the S&P/TSX Capped REITs Index, returned +7.4% for the month-ended January 31, 2019, compared to +8.7% for the S&P/TSX Composite Index. U.S. REITs were also up strongly in January, with the MSCI U.S. REIT Index rebounding +11.7%, leading the +8.0% gain for the S&P 500 Index (in U.S. dollar terms). For the month, the First Asset Canadian REIT ETF (the "Fund") returned +7.0% net of fees.

Despite the rebound, Canadian REITs continue to trade at a high-single digit average discount to net asset value ("NAV"). We continue to see significant divergence in valuation, by issuer and by property type. 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 that are attractively valued versus peers and/or direct property. During the month of January, we took advantage of market strength to trim/exit a few positions, recycling capital into select opportunities where we see improved risk-return characteristics.

On January 30, 2019, the U.S. Federal Reserve left its policy rate unchanged. The January Federal Open Market Committee (FOMC or the "Committee") statement and the Statement Regarding Monetary Policy Implementation and Balance Sheet Normalization revealed a more dovish (and REIT- and market-friendly) stance with respect to both rates and the balance sheet, noting "the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate." Additionally, the Committee revised its earlier guidance regarding its balance sheet normalization program, noting that it is "prepared to adjust any of the details for completing balance sheet normalization in light of economic and financial developments." Interest rate futures are showing few signs of another rate hike in 2019 and have raised the chances of a cut in 2020.

Canadian REITs will start reporting Q4 2018 results in mid-February. We expect a continuation of recent trends. U.S. REITs commenced reporting Q4 2018 results in January. Thus far, apartment and industrial REITs have stood out with solid results and generally upbeat earnings calls commentary. Simon Property Group (NYSE: SPG), the first mall REIT to report Q4 results, met consensus expectations for the quarter but its 2019 funds from operations ("FFO") guidance fell short of Street estimates, highlighting a tepid growth outlook for retail. CEO, David Simon, noted 2019 retail bankruptcies to-date have trended below 2017 and 2018 levels, but that this could change as certain retailers speculated to fail could shake out in Q1.

Leading real estate services firm, CBRE, recently released its Canada Q4 2018 Quarterly Statistics report, which outlines key trends and statistics for Canadian office and industrial, by market. Canadian office and industrial fundamentals remain broadly healthy, with industrial, in particular, continuing to deliver. Key takeaways from the report are as follows:

Canada Office:

- The national office vacancy rate tightened by 50 basis points sequentially to finish the fourth quarter at 11.9%, as total net absorption of 2.7M square feet in Q4 exceeded the 1.1M square feet of new office product delivered during the quarter. Strong absorption was driven by a (surprisingly!) active suburban office market. In Q4, suburban demand accounted for ~80% or ~2.2M square feet of net absorption, driven by Waterloo (662,097 square feet), Calgary (447,457 square feet) and Toronto (451,296 square feet). Favourable market fundamentals have spurred yet another uptick in office construction. In Q4, the national development pipeline increased to 14.6M square feet, representing 3.1% of national inventory, with the lion's share of development concentrated in Vancouver (+7.3% of existing inventory net rentable area), Toronto (+4.9%) and Montreal (+2.4%) – which we're monitoring closely. We remain selective with respect to office REITs, with Allied Properties REIT being the Fund's largest pure-play office holding.

Canadian Industrial:

- In Q4, the national industrial availability rate tightened by 10 basis points sequentially to reach a new record low of 3.2%; marking the 10th consecutive quarter of availability rate compression. Availability rates in Toronto (1.6%), Vancouver (2.3%) and Montreal (3.6%) have continued to compress while Calgary saw availability rates rise 120 bps sequentially to 8.2% due to new supply deliveries. As of Q4, 18.5M square feet of industrial space was under construction across Canada, representing a modest 1.0% of total inventory. Given strong tenant demand and modest new supply, national average net rents have continued to increase, hitting $7.72 per square foot in Q4, a +10.8% increase year over year. We remain bullish on the industrial REIT sector with positions in Dream Industrial REIT (TSX: DIR.UN), WPT Industrial REIT (TSX: WIR/U), Summit Industrial REIT (TSX: SMU.UN), Granite REIT (TSX: GRT.UN) and Prologis Inc. (NYSE: PLD).

News & Noteworthy:

- On January 24, 2019, Bullpen Research & Consulting, a residential real estate advisory firm, and Batory Management, a land-use planning and project management firm, released their Q4 2018 GTA High Rise Land Insights Report. 35 Greater Toronto Area (GTA) properties with high density development potential were closed and reviewed in the report. During the quarter, the average property sold for an estimated $127 per buildable square foot (simple average), up +2% from $125 per buildable square foot in Q4 2017. Lands that sold with a fully approved apartment project sold for $159 per buildable square foot in Q4, equating to a 31% premium over sites with an active application only. Land values have increased more modestly as developers have adopted more conservative underwriting given higher development charges, higher construction costs and the expectation of a longer approvals process (post Ontario Municipal Board). Given this dynamic, Bullpen and Batory expect land prices to increase by a modest 2% to 3% again in 2019. We believe elevated land prices, punitive development charges and construction costs will continue to pressure new apartment supply in the GTA, benefitting incumbent players, Canadian Apartment Properties, InterRent REIT, Minto Apartment REIT, and Morguard North American Residential REIT.

- On January 31, 2019, Brookfield Asset Management (TSX: BAM.A) announced the closing of its latest flagship global private real estate fund, the Brookfield Strategic Real Estate Partners III ("BSREP III"), with total equity commitments of US$15B – Brookfield's largest private fund to date. Reflecting strong investor demand, BSREP III significantly exceeded its original fundraising target of US$10B and included a diverse investor base of more than 150 investor partners, including public and private pension plans, sovereign wealth funds, financial institutions, endowments and foundations, family offices, and investors from Brookfield's private wealth channel. Global real estate continues to attract significant capital.

As we look forward to Q4 reporting season and beyond, our sector stance continues to favour multi-family, industrial, seniors housing, and defensive daily necessity-oriented retail. The Fund's top 10 holdings at January 31, 2019, included Canadian Apartment Properties REIT, Killam Apartment REIT, InterRent REIT, Morguard North American Residential REIT, First Capital Realty, Dream Industrial REIT, Allied Properties REIT, RioCan REIT, Tricon Capital Group and WPT Industrial REIT. Combined, these holdings represent 41% 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)	**7.01**	**4.94**	**4.66**	**7.01**	**11.24**	**10.77**	**14.03**	**12.00**	**15.30**	**10.87**
S&P/TSX Composite TR	8.74	4.28	-3.92	8.74	0.47	3.53	9.81	5.64	9.15	6.93
S&P/TSX Capped REITs TR	7.42	5.78	6.37	7.42	14.00	12.01	13.47	9.07	14.78	9.93
MSCI US REIT NR USD	11.72	7.07	3.96	11.72	9.85	4.52	6.57	7.93	14.21	–
S&P 500 TR CAD	3.86	0.27	-2.15	3.86	4.57	11.54	11.42	14.65	15.67	8.87

Source: Morningstar Direct and First Asset as at January 31, 2019.

Inception date is November 14, 2004[1]

SIGNATURE
GLOBAL ASSET MANAGEMENT™

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

Mr. Goldman activley manages the:

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.

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