

Canadian REITs lagged the broader index in July amid a continued steep back up in yields which saw the 10-year Canada bond conclude the month at 2.06%, up 30 basis points from 1.76% at the end of June and 64 basis points from 1.42% at the end of May. In sympathy, the S&P/TSX Capped REIT TR Index took back -1.4%, lagging the -0.1% S&P/TSX Composite TR Index return in July. South of the border, the MSCI U.S. REIT Index was up +1.3 % for the month, lagging the +2.1% S&P 500 TR Index return (both in U.S. dollar terms). For the month, the First Asset Canadian REIT ETF (the "Fund") was down -2.2% net of fees. The Fund continues to perform well on a year-to-date basis, up +5.7% versus +2.2% for the S&P/TSX Capped REIT TR Index.

As expected, the Bank of Canada hiked rates by 25 basis points to 0.75% in early July. As confidence in the economy surged, so too did the Canadian dollar, continuing its rally versus the U.S. dollar for the second consecutive month, rising to \$0.80 (a 14 month high!) from US\$0.77 at the end of June. As a group, Canadian REITs are now trading at a 383 basis point spread to the 10-year Canada bond yield, 42 bps above the long-term average of 341 bps and 72 bps above the normalized (ex-financial crisis) long-term average of 311 bps.

In mid-July CBRE released its Q2 2017 Canadian Cap Rate & Investment Insights report, which provides a quarterly snapshot of cap rates and investment trends. As highlighted in the report, national cap rates reflected further compression on average in Q2, particularly within the "rock solid" industrial asset class. Multi-family residential and retail cap rates also showed continued compression in Q2. Class B suburban office was the only asset class to see some modest cap rate expansion in the quarter, up 2 basis points sequentially. By geography, Calgary experienced the most notable cap rate compression on a sequential basis, particularly within the retail and multi-family asset classes – a surprise to some, we're sure!

Speaking of surprises... Building on M&A activity announced earlier this year, on August 4th OneREIT (TSX: ONR.UN) announced that it will be privatized by SmartREIT (TSX: SRU.UN) and Strathallen Acquisitions Inc. in a transaction valued at \$1.1B or \$4.26 per OneREIT unit on a fully prorated basis. The transaction, which will be satisfied by way of a combination of cash and SmartREIT units, represents a premium of ~15% to OneREIT's 20-day volume weighted average unit price and a ~22% premium to the unaffected unit price on June 7, 2016, the day prior to OneREIT's initiation of its lengthy strategic review process. While not reflected in the July stats, the Fund did benefit from its position in OneREIT.

For the month, the Fund's top performing equity holdings and approximate contributions to total return were: First Capital Realty, contributing 14 bps; Dream Industrial REIT, contributing 10 bps; and RioCan REIT, contributing 2 bps. Equity holdings that detracted from the Fund's performance in July included Tricon Capital Group (-37 bps), Pure Industrial REIT (-24 bps), and Dream Global REIT (-16 bps).

#### Headlines of interest in July included:

- On July 17th, Dream Global REIT (TSX: DRG.UN) announced that it had acquired a portfolio of 135 office and light industrial properties representing 7.7M square feet of Gross Leasable Area located in the Netherlands. The purchase price of €622.1M (C\$903M) will be satisfied by way of cash and Dream Global units, and represents a going-in capitalization rate of 8.0%. In conjunction with the transaction, Dream Global announced a \$300M bought deal equity offering. The acquisition is expected to be ~10% accretive to 2018 Adjusted Funds From Operations per unit and will result in an enhanced real estate platform for Dream Global with the addition of a seasoned real estate management team led by Bas van Holten with extensive experience in the Dutch real estate market.
- On July 24th, Dream Industrial REIT (TSX: DIR.UN) announced the acquisition of a 717,000 square foot modern distribution facility in Nashville, TN for ~C\$60M, representing a going-in capitalization rate of 6.3%. The 32' clear asset includes over 14 acres of land for storage or future site expansion of up to 485,000 square feet. In conjunction with the transaction, Dream Industrial also announced an agreement with its asset manager, Dream Unlimited Corp. (TSX: DRM) to actively leverage DRM's land bank, newly established industrial development group, and relationships to explore development opportunities in both the U.S. and Canada.
- On July 25th, Pure Industrial REIT (TSX: AAR.UN) announced the acquisition of 8 distribution and logistics facilities comprising 1.9M square feet of Gross Leasable Area across the GTA (72% of Net Operating Income), Edmonton (18%), and Montreal (10%) for \$365M, representing a going-in capitalization rate of 5.2%. Upon closing, the assets will be 100% leased to quality multinational tenants under long-term lease agreements with a weighted average lease term of 9.8 years. Concurrent with the acquisition, Pure Industrial announced a \$200M bought deal equity financing.
- On July 26th, SmartREIT (TSX: SRU.UN) and Mitchell Goldhar announced that Transit City Condos third tower is now substantially sold out. Transit City Condos is a JV between SmartREIT, Mitchell Goldhar, and CentreCourt Developments at VMC.
- On July 27th, Allied Properties REIT (TSX: AP.UN) announced the advancement of a \$100M first mortgage loan to Westbank to secure a future 50% interest in Westbank's office project at 400 West Georgia Street in Vancouver. Westbank intends to construct a 24-storey, 345,000 square foot office tower on the site with completion expected in early 2020. Upon substantial completion of the property, the mortgage will be repaid and Allied will acquire an undivided 50% interest in the property for a purchase price equal to 50% of Westbank's total cost, which is estimated at \$280M.

The Fund's top ten holdings at July 31st included First Capital Realty, Pure Multi-Family REIT, Morguard North American Residential REIT, RioCan REIT, Killam Apartment REIT, H&R REIT, Canadian Apartment Properties REIT, Canadian REIT, Tricon Capital Group and InterRent REIT. Combined, these holdings represent ~40% of the Fund. The Fund's portfolio 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
<b>First Asset Canadian REIT ETF</b>	<b>-2.16%</b>	<b>-1.76%</b>	<b>4.19%</b>	<b>5.76%</b>	<b>3.76%</b>	<b>11.42%</b>	<b>9.25%</b>	<b>8.54%</b>	<b>10.15%</b>
S&P/TSX Capped REIT TR Index	-1.39%	-2.85%	2.17%	2.19%	-2.85%	4.82%	3.85%	6.68%	8.50%
MSCI U.S. REIT Index	1.22%	2.46%	3.36%	3.29%	-5.78%	7.24%	7.89%	5.55%	6.17%
S&P/TSX Composite TR Index	-0.06%	-2.13%	-0.17%	0.67%	6.81%	2.58%	8.56%	3.90%	6.54%
S&P 500 TR Index	2.06%	4.14%	9.51%	11.59%	16.04%	10.87%	14.78%	7.74%	8.48%

Source: Morningstar as at July 31, 2017

Inception date: Nov 15, 2004<sup>1</sup>

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.



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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

<sup>1</sup>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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