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

The S&P/TSX Capped REIT TR Index returned +1.5% in April, outpacing the +0.4% return generated by the S&P/TSX Composite TR Index. South of the border, the MSCI U.S. REIT Index was up +0.2% for the month, lagging the +1.0% S&P 500 TR Index return (both in U.S. dollar terms). In contrast, the First Asset Canadian REIT ETF (the "Fund") was up +1.6% net of fees for the month. For the one-year period ending April 30th, the Fund returned +16.3% net of fees, outperforming the S&P/TSX Capped REIT TR Index, up +9.2%, by over 700 basis points for the period.

The Canada 10-year bond yield concluded the month at 1.55%, down 8 basis points month-over-month. As a group, Canadian REITs are now trading at a 409 basis point spread to the 10-year bond yield, 69 bps above the long-term average of 340 bps and 99 bps above the normalized (ex-financial crisis) long-term average of 309 bps.

While Canadian REITs are currently trading at an average -1% discount to Net Asset Value, the range is wide at a ~30% discount to ~20% premium. Recent trading has favoured 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.

In April, renewed focus was directed towards the Canadian housing market as headlines concerning the Ontario government's Fair Housing Plan and troubled alternative lender Home Capital Group (TSX: HCG) grabbed investor attention.

The Fair Housing Plan, released by the Ontario government on April 20th, introduced a number of measures aimed at easing housing affordability, increasing supply, and protecting buyers and renters. Key changes included: i) the introduction of a 15% Non-Resident Speculation Tax on home purchases in the Greater Golden Horseshoe area by individuals who are not citizens or permanent residents of Canada or by foreign corporations, and ii) the expansion of rent control to all private rental units in Ontario, including those built after 1991. On a go-forward basis, rent increases across the province will be subject to the guideline rent increase, capped at a maximum of 2.5% per year. In addition, the province is expanding protection to tenants by tightening the provision for "landlord's own use" evictions. There was no change to a landlord's ability to charge market rent on tenant turnover or apply for above-guideline rent increases on qualifying capital expenditures. Bottom line, we view the changes as largely neutral to the multi-family residential REITs.

Over recent weeks, a series of negative headlines surrounding alternative lender Home Capital Group Inc. (TSX: HCG) sparked heightened concern regarding the company's long-term viability and potential ramifications for the health of the Canadian housing market. On April 26th, Home Capital announced that its subsidiary, Home Trust, had secured a firm commitment for a $2B credit facility from a major Canadian institutional investor, whom we later learned was HOOPP, to mitigate the impact of a rapid and unprecedented decline in Home Trust's High Interest Savings Account deposit balances. The terms of the agreement were punitive (a $100M non-refundable commitment fee, 10% interest rate on the outstanding balance and a 2.5% standby fee on undrawn funds) and came as a significant negative surprise to investors. In response, Home Capital's shares plunged ~65% to $5.99 during the subsequent trading session. While Home Capital's issues are largely viewed as company-specific, the headlines have resulted in widespread concern relating to deposit funding and liquidity, and have pressured share prices across a number of alternative mortgage lenders including Equitable Group (TSX: EQB) and First National (TSX: FN), and to a lesser extent, the Canadian banks. Importantly, Home Capital's underlying loan book has continued to perform well, with net non-performing loans totaling 0.24%, improved from 0.34% a year ago.

While Home Capital is an important player within the alternative lender space, it is less significant when viewed in the context of the overall Canadian housing market, with an approximate 1% market share. Owning to recent events at Home Capital, Equitable Group sought and obtained a two-year $2B secured funding facility from a syndicate of Canada's big six banks. Terms reflect a 0.75% commitment fee, an interest rate on the outstanding balance equal to the Bank's cost of funds + 1.25%, and a 0.5% standby fee on undrawn funds. These terms are competitive with spreads on Equitable Banks' most recent deposit note issuance – and as such, will allow Equitable to continue to grow profitably. While the disruption at Home Capital has and will likely continue to drive near-term volatility, it may also provide opportunities for certain groups to prudently gain share. We have selectively added exposure to the space, with a preference for names that have permanent capital.

Our sector stance continues to favour multifamily, industrial, seniors housing and defensive daily necessity-oriented retail. We remain neutral on retail more broadly and underweight office given demand/supply concerns, particularly in Edmonton and Calgary. We remain favourably disposed to REITs with quality assets, exposure to higher growth markets, value add development and intensification potential, low payout and leverage ratios, and less dependence on the capital markets to execute their strategy.

For the month, the Fund's top performing equity holdings and approximate contributions to total return were: Pure Industrial REIT, contributing 25 bps; Crombie REIT, contributing 14 bps; and WPT Industrial REIT, contributing 13 bps. Equity holding that detracted from the Fund's performance in April included Morguard REIT (-8 bps), Tricon Capital Group (-6 bps), and First Capital Realty (-4 bps).

Notable news for April:

- On April 20th, Brookfield Canada Office Properties (TSX: BOX.UN) announced that it had entered into a definitive agreement with Brookfield Property Partners (TSX: BPY.UN) pursuant to which BPY will acquire the 17% equity interest in BOX that it or its subsidiaries do not own for $32.50 in cash per unit. The revised offer represents an increase of $2.40 above the initial offer of $30.10 proposed on January 23rd.

- On April 21st, Canadian Apartment Properties REIT (TSX: CAR.UN) commented on the Ontario government's proposed changes to rent control. As noted in the press release, CAP REIT's total Ontario portfolio consists of 22,136 rental suites, with only 812 suites (3.7%) constructed post-1991. As such, the proposed changes will have no impact on CAP REIT's projected rental revenues. Management believes (and we agree!) that the changes to Ontario's rent control legislation will reduce the availability of future rental accommodation and thus accelerate the lack of available rental housing in the Province.

- Also on April 21st, Dream Office REIT (TSX: D.UN) announced that it had entered into an automatic securities repurchase plan with its designated broker in order to facilitate purchases of its units pursuant to its Normal Course Issuer Bid. The repurchase plan will allow the REIT to buy back units at any time, without limitation, including during blackout periods.

- On April 24th, Choice Properties REIT (TSX: CHP.UN) kicked off Q1 earnings. Results came in a penny above street expectations.

- On April 28th, Milestone Apartments REIT (TSX: MST.UN) announced the closing of the going-private transaction with Starwood Capital Group and ceased trading on the Toronto Stock Exchange.

The Fund's top ten holdings at April 30th included Canadian Apartment Properties REIT, First Capital Realty, Pure Multi-Family REIT, H&R REIT, Killam Apartment REIT, Morguard North American Residential REIT, Canadian REIT, Tricon Capital Group, RioCan REIT and Pure Industrial REIT. Combined, these holdings represent ~40% 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	1.60%	6.03%	10.52%	7.60%	16.33%	13.30%	10.71%	7.49%	11.18%
S&P/TSX Capped REIT TR Index	1.47%	5.17%	8.39%	5.19%	9.15%	6.55%	5.70%	6.09%	9.85%

Source: First Asset as at April 28, 2017

Inception date: Nov 15, 2004[1]

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.
Use of benchmark: 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 Canadian real estate sector.

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