

The S&P/TSX Capped REIT TR Index returned -1.0% versus -3.0% for the S&P/TSX Composite TR Index for the month ended February 28th, as healthy Q4 earnings and continued M&A provided an offset to broader market malaise. Year-to-date, the S&P/TSX Capped REIT TR Index is down -0.8% versus -4.4% for the S&P/TSX Composite TR Index.

Amid higher 10-year bond yields and a general market pullback, Canadian REITs have shifted from fairly or reasonably valued to attractively valued. Canadian REITs, on average, are trading at a high single-digit discount to Net Asset Value ("NAV"). We are seeing good value in a number of REITs and real estate operating companies, and have been putting cash to work at a measured pace.

In late February, CBRE held its 2018 Canadian Market Outlook presentation in Toronto. Speaker Paul Morassutti, EVP and Executive Managing Director, Valuation and Advisory Services at CBRE, characterized Canadian property fundamentals as "strong", and noted, "strong may not be a bold enough term". Nine years into a bull run, appetite for Canadian real estate remains unsated. CBRE expects we could see another record year of investment volumes in 2018 as Canadian commercial real estate maintains its appeal as a stable, high yielding investment notwithstanding rising interest rates. Investment capital remains abundant and readily available to be deployed into real estate. Specifically, CBRE highlighted Blackstone and Ivanhoe Cambridge's \$3.8B purchase of Pure Industrial REIT in January as an example of demand for high quality assets. CBRE expects pension fund allocations to real estate will continue to rise, reaching an estimated 14 to 16% by 2023. Importantly, CBRE forecasts Canadian commercial real estate cap rates will remain flat to down in 2018, with suburban office, industrial and neighbourhood retail expected to see further cap rate compression (i.e. rising valuations) this year.

On February 15th, jaws dropped in response to Choice Properties REIT's acquisition of Canadian REIT ("CREIT"), in a cash and stock transaction valued at ~\$6B, or \$22.50 in cash and 2.4904 Choice Properties REIT units per CREIT unit, on a fully prorated basis. Together, Choice Properties and CREIT will form Canada's largest REIT with an enterprise value of ~\$16B. Hard on the heels of the Blackstone/Ivanhoe acquisition of Pure Industrial, the deal marks the second large-scale REIT transaction year-to-date in as many months. Notable benefits of the transaction for Choice include increased scale; improved asset class, geographic and tenant diversification; a strengthened platform through the addition of CREIT's tenured and highly regarded President & CEO, COO, and CFO; and increased float and trading liquidity, which is expected to yield S&P/TSX Capped REIT Index inclusion. The transaction is subject to a unitholder vote at a special meeting expected to take place in April 2018. The cash offer price of \$53.75 represents an 11% premium to CREIT's consensus NAV, and a 23% premium to the February 14th closing price. The First Asset Canadian REIT ETF (the "Fund") held a sizeable (~4%) weight in CREIT, and benefitted from the announcement.

As we look forward to 2018, our sector stance continues to favour multifamily, industrial, seniors housing, and defensive daily necessity-oriented retail. While sentiment continues to weigh on retail-oriented names, we see opportunity, particularly for patient, long-term capital. The Fund continues to overweight REITs with quality, urban portfolios, exposure to higher growth markets, value add development and intensification potential, and conservative balance sheets. Our positive stance on industrial REITs has been reinforced in recent meetings with Summit Industrial Income REIT CEO Paul Dykeman and CFO Ross Drake, and Dream Industrial REIT CEO Brian Pauls and CFO Lenis Quan. Tight industrial market conditions are expected to persist, which should translate into meaningful rental rate growth over time, particularly in the GTA.

The Fund's top ten holdings at February 28th included Pure Industrial REIT, First Capital Realty, Canadian Apartment Properties REIT, Killam Apartment REIT, InterRent REIT, Canadian REIT, RioCan REIT, Tricon Capital Group, Dream Industrial REIT, and H&R 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	-1.64	-0.63	2.77	-1.62	4.52	8.84	8.79	10.02	10.64
S&P/TSX Capped REIT TR Index	-0.99	0.63	4.97	-0.80	5.39	3.77	4.58	8.53	9.49
S&P/TSX Composite TR Index	-3.02	-3.23	2.94	-4.37	3.23	3.47	6.92	4.33	7.14

Source: Morningstar as at February 28, 2017

Inception date: Nov 15, 2004¹



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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, CFA, MFin
Portfolio Manager
First Asset Investment Management Inc.

Ms. MacDonald co-manages the:

- First Asset Canadian REIT ETF
- First Asset REIT Income Fund

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.

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.

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