INVESTMENT FUNDS

REAL ESTATE INCOME

MONTHLY COMMENTARY

May 29, 2020

REITs have underperformed the broader market so far in 2020, with a return of -23.4 % for the TSX REIT index YTD (as of May 29th) compared to a TSX index return of -9.6 %. Why so? There are several reasons behind this. First, REITs, according to their business model, carry more debt than a lot the other public companies, which makes investors nervous during recessions. Also, they have been hit directly by many business closures due to the pandemic: restaurants, retail outlets, etc. Lastly, investors are nervous that residential REITs will suffer because of the rent delays from some tenants.

So, let's look at the Fund's strategy in more detail. There are four main types of public REITs: Retail REITs, Offices REITs, Residential REITs and Industrials REITs (mostly warehouses exposed to e-commerce). All sub sectors have been punished harshly, even Industrials, which represent to me a clear opportunity because of the surge in e-commerce activity. There is also a lot of concern around Residential REITs, but I think that with time, these concerns will recede. So far rent payments have held on much better than expected and are very close to normal levels.

Some investors are worried that Offices REITs will suffer a lot from the working from home trend, which might be true to some extent, but remains to be seen. We also must consider that the Toronto and Vancouver office markets were extremely tight before the crisis and that should allow occupancy rates to remain at high levels, even in the face of slowing demand. Finally, Retail REITs are clearly suffering from the current situation, and they were already in a tough spot. This is the REIT subsector that has suffered the most so far in terms of performance.

The Fund's strategy had been for some time to overweigh Industrials and Residential REITs and largely underweight Offices and Retail REITs. I added to Industrials and Residentials in the downturn. I think the Fund is well positioned for an eventual recovery that might still take some time though. One area where we have worked hard and tried to add value in the recovery is in the Canadian equity portion. Some names were recently added to equities to benefit from the market recovery, such as Labrador Iron Ore, Canadian Tire, Canadian Pacific, West Fraser timber. Once again, I think this diversification will help the Fund to add value and outperform the TSX REIT index.

As at May 29th, the Real Estate Income Fund has added value compared to the TSX REIT, on a gross basis. The Fund's annual distribution rate stood at 5.3% at the same date. With the 10-year Canadian bond rate at 0.58 %, REIT yields prove to be attractive to income investors and at some point, will trigger a revaluation.

We also must remember the fact the REITs are as risky as the overall market as measured by standard deviation. As a result, the Real Estate Fund could experience volatility in these financially turbulent times.

MARC GAGNON, M. Sc., CFA

— Principal Portfolio Manager, North American Equities
— Joined iAIM in 1998
— More than 25 years of investment experience
— MBA in Finance, Université Laval
— Bachelor's degree in Business Administration, Université Laval

List of the main funds managed by the team

✓	Canadian Equity Growth
✓	Real Estate Income
✓	Global True Conviction
✓	Canadian Equity Growth Hybrid 75/25
✓	Global True Conviction Hybrid 75/25
✓	IA Clarington Canadian Leaders Class

iAIM Snapshot

— Principal Asset Manager for iA Financial Group
— Major player in the asset management industry
— Manages $97 billion in general portfolios and segregated and mutual funds
— A team of 184 people, including 108 investment professionals (including 44 CFA charterholders)
— Composed of experienced managers who emphasize fundamental analysis, identification of value and long-term investing

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