INVESTMENT FUNDS

REAL ESTATE INCOME

MONTHLY COMMENTARY

June 30, 2020

Real estate investment trusts (REITS) have underperformed the broader market so far in 2020, with a return of -21.3% for the TSX REIT index year-to-date as at June 30, compared to a return of -7.5% for the TSX index. There are several reasons behind this. First, REITs, based on their business model, are more in debt than many other public companies, which makes investors nervous during a recession. Second, they have been directly affected by many business closures due to the pandemic: restaurants, retail stores, etc. Lastly, investors are concerned that residential REITs may suffer from late rent payments by some tenants.

Let's take a closer look at the Fund's strategy. There are four main types of public real estate investment trusts: retail, office, residential (rental apartments) and industrial (primarily distribution warehouses with exposure to e-commerce) real estate trusts. All these sub-sectors have been severely punished, even the industrial sub-sector, which we see as an opportunity because of growth in e-commerce activity. Residential real estate investment trusts are also causing a lot of concern, but we think that over time these concerns will fade. So far, rent payments have held up much better than expected and are close to normal levels.

Some investors are concerned that office real estate trusts will suffer greatly from the trend towards working from home, which may be true to some extent, but which will take time to take hold in terms of needs reassessment and lease adjustments. It should also be considered that the Toronto and Vancouver office markets were well below average vacancy levels before the crisis and that this should allow occupancy rates to remain at a high level, even in the face of slowing demand. Finally, retail companies are clearly suffering from the current situation, and were already in a difficult position. It is the REIT sub-sector that has suffered the most so far in terms of performance.

The Fund's strategy for some time has been to overweight industrial and residential trusts and significantly underweight office and retail trusts. We even invested more in industrial and residential trusts during the market downturn. Recently, we also increased our position in RioCan, a high-quality diversified real estate trust that had suffered greatly since the beginning of the crisis due to the retail portion of its portfolio.

We believe the Fund is well positioned for a potential recovery, which may be gradual. One area where we have worked hard and tried to add value during the recovery is the portion of the Fund invested in Canadian equities. Some names that have recently been added to take advantage of the market recovery, such as Labrador Iron Ore, Canadian Tire, Canadian Pacific, and West Fraser Timber have done very well. Once again, we believe this diversification will help the Fund add value and outperform the TSX REIT index.

As at June 30, the Real Estate Income Fund had a year-to-date return that was 3.1% higher than the TSX REIT return, on a gross return basis. The Fund's annual distribution rate was 5.2% as at the same date. With the Canadian 10-year bond rate at 0.56%, REIT yields are attractive to income investors and, at some point, will trigger a revaluation.

We must remember that REITs are as risky as the equity market as a whole, as measured by standard deviation. As a result, the Real Estate Income Fund could experience some volatility during these times of financial turmoil.

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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