INVESTMENT FUNDS

REAL ESTATE INCOME

MONTHLY COMMENTARY

August 31, 2020

Until now in 2020, real estate investment trusts (REITs) continue to underperform the market overall with a return of -21.7% for the TSX REIT index as at August 31, compared to a return of -1.05% for the TSX index. The trust index remained stable in August, whereas the Canadian market index (S&P/TSX) continued to rise and is now almost at the same level as at the beginning of the year. As we know, the effects of the pandemic continue to be felt and among the main real estate trust sectors, residential (apartments), retail (stores and shops), office and industrial buildings (warehouses) trusts, some continue to suffer.

For example, REITs are still cause of great concern. Investors worry that REITs will face rent payment delays for a portion of their renters. Until now, rent payments remained higher than anticipated and are around the regular levels, due to, among other things, government assistance programs. The fact that the Ontario government proposes keeping rents at the same level in 2021 as in 2020 led to a negative perception of the market. However, it should be noted that the increase projected by the government in 2021 was only 1.5%. The impact on REIT profits will therefore be minimal. In general, we see the situation in this sector as a long-term opportunity and we have added to our current holdings.

The impact of telework on office building trusts is yet to be defined; however, we can already tell that it will be significant. It will, however, take some time for things to fall into place because of the long-term nature of leases

It is also important to consider that the office market in Toronto and in Vancouver was already well below the average vacancy threshold before the crisis and this should make it possible to support rents, even in the face of a slowdown in demand.

All the same, we remain under-invested in this sector as we await details about the impact of telework.Retail trusts are clearly suffering because of the situation caused by the pandemic. In terms of performance, the real estate trust sector has suffered the most to date and has not really begun to recover. We share market concerns regarding this sector. Once again, in the Fund, we are underweight in this sector and target investments in companies with tenants that have only been slightly impacted by the pandemic, like grocers, and in trusts invested in better quality assets.

Finally, the industrial real estate trust sector is the sector that has performed the best since the slowdown caused by the pandemic. Some of the companies have exposure to e-commerce, as they invest in storage and distribution centres needed to deliver these goods. The Fund is well exposed in this sector, with a weight higher than the index.

This leads us to believe that the Fund is well positioned for an eventual recovery, which could; however, be gradual. We also believe that the current situation calls for a focus on selecting high quality REITs that have fallen in line with the rest of the industry, and that there is an opportunity to add some of them to the portfolio at very attractive valuations on a historical basis.

Additionally, we have continued to earn profits in the Canadian equities portion of the Fund, as several names have performed well over the last few months. This diversification in Canadian equities is very important as it allows the Fund to add value and surpass the TSX REIT index over the long term. Moreover, it is a major reason why the Fund has performed better than the REIT index since the beginning of the year.

As at August 31, the Real Estate Income Fund earned a return year to date of 5.3% higher than the return of the TSX REIT, on a gross return basis. The Fund's annual distribution rate was 5% as at the same date and the 10-year Canadian bond rate was 0.53%. REIT distributed returns are attractive to investors who are seeking income, which will support an eventual revaluation, especially in an environment where interest rates are so low.

We must remember that REITs are as risky as the equity market overall, as measured by the standard deviation because of, among other things, their high debt level. As a result, the Real Estate Income Fund may experience a certain level of 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

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

DISCLAIMER

This document was prepared by iA Investment Management. Unless otherwise indicated, the segregated funds presented in this document are offered by iA Financial Group and the Mutual Funds presented are offered by iA Clarington Investments Inc.

The opinions expressed herein are based on current market conditions and may change without notice. They are not intended to provide investment advice. The forecasts provided herein are not guarantees of future performance, and include risks, uncertainty and assumptions. While these assumptions appear reasonable, there is no guarantee that they will be confirmed.

An investment in the mutual fund or the segregated fund may result in commissions, trailing commissions, management and other fees. Please read the prospectus or the Information Folder before making an investment. Each rate of return indicated is a historical annual compounded total rate of return that takes into account fluctuations in the value of units or shares and the reinvestment of all distributions and does not take into account buying commissions or redemption fees, investment fees, optional fees or tax on payable income by a unit holder, which would contribute to poor performance. Mutual Funds are not guaranteed and the segregated funds are guaranteed in part, under certain conditions. The value often fluctuates upward or downward, at the risk of the subscriber, and past performance is not indicative of future performance.

The rate of return is used to illustrate the effects of the compound growth rate only and is not intended to reflect the future values of the investment fund or the return on an investment in the investment funds.

iA Financial Group is a business name and trademark of Industrial Alliance Insurance and Financial Services Inc. iA Investment Management is a trademark and business name under which Industrial Alliance Investment Management Inc. operates. iA Investment Management and iA Clarington Investments Inc. are wholly owned subsidiaries of iA Financial Group.

This publication contains information provided by companies not affiliated with iA Financial Group (“Third Party Content Providers”), including, but not limited to, ratings, stock indexes and company-classification systems (“Third Party Content”) Third party Content is the property and trademarked by the relevant Third Party Content Providers and has been licensed for use by iA Financial Group. The use of Data received from Third Party Content Providers by iA Financial Group is authorized under licence.

This publication contains information provided by companies not affiliated with iA Financial Group (“Third Party Content Providers”), including, but not limited to, ratings, stock indexes and company-classification systems (“Third Party Content”) Third party Content is the property and trademarked by the relevant Third Party Content Providers and has been licensed for use by iA Financial Group. The use of Data received from Third Party Content Providers by iA Financial Group is authorized under licence.

The information presented in this publication is provided for informational purposes only. iA Financial Group and Third Party Content Providers make no representations or warranties as to the information contained herein and no not guarantee its originality, accuracy or completeness. iA Financial Group and Third Party Content Providers disclaim all liability in respect of this information or the use or misuse thereof.

The investment funds offered by iA Financial Group (“Funds”) are not sponsored, endorsed, sold or promoted by Third Party Content Providers. Third Party Content Providers make no representation as to the relevance of investing in the Funds, offer no guarantee or conditions in respect thereof, or assume liability in respect of their design, administration or negotiation.

Financial and economic publications of iA Financial Group are not written, reviewed or approved by Third Party Content Providers.

Any information contained herein may not be copied, used or distributed without the written consent of iA Financial Group and/or the relevant Third Party Content Provider.

Where FTSE indexes are used, or referenced: FTSE International Limited (“FTSE”) © FTSE [2018] ® is a trademark of the London Stock Exchange Group companies and is used by FTSE under licence. “NAREIT®” is a trademark of the National Association of Real Estate Investment Trusts and used by FTSE under licence. “EPRA®” is a trademark of the European Public Estate Association and used by FTSE under licence. “TMX” is a trademark of the TSX Inc. used by FTSE under licence.

NASDAQ®, OMXTM, NASDAQ-100® and NASDAQ-100 Index® are registered trademarks of NASDAQ Inc. and are licensed for use by iA Financial Group.

Where the Global Industry Classification Standard (GICS) is used or referenced: the GICS was developed by MSCI Inc. (“MSCI”) and Standard & Poor’s Financial Services LLC (“S&P”) and is licensed for use by iA Financial Group.

The International Equity Index Fund, the Global Equity Index ACWI Fund, the Global Stock Account, the European Stock Account and the International Stock Account are each indexed to an MSCI index. MSCI indexes are licensed for use by iA Financial Group. For more information about the MSCI indexes, visit htpps://msci.com/indexes.