CI GLOBAL REIT FUND

Commentary

CI GLOBAL ASSET MANAGEMENT

DECEMBER 31, 2024

PERFORMANCE SUMMARY

For the quarter ended December 31, 2024, the CI Global REIT Fund (Class F) had a total return of -6.0%.

Contributors to performance: Equinix, Kimco, and European Residential REIT were the top individual contributors to fund performance in the quarter.

Detractors from performance: Boardwalk, American Tower, and Prologis were the top individual detractors to fund performance in the quarter.

MARKET SUMMARY AND PORTFOLIO ACTIVITY

REIT markets were soft in the final quarter of 2024. The FTSE EPRA/NAREIT Index (in Canadian dollar terms) had a total return of -9.5%, with the S&P/TSX Cappex REIT Index falling 14.6% and the MSCI US REIT Index falling 6.1%. By comparison, the S&P500 Index was up 2.4% and the S&P/TSX Composite Index was up 3.8%. Bond yields rose during the quarter, partly on the belief a Trump presidency could lead to some combination of higher inflation (for example, via tariffs) and better economic growth which could warrant tighter monetary policy than previously thought. Indeed, during its December meeting, the Fed's median projection for the Fed Funds Target Rate at the end of 2026 increased to 3.375% from 2.875% at the September meeting. The U.S. 10-year bond yield was up 79bps through the quarter ending at 4.57% while Canadian yields were up 27bps to 3.23%.

During the quarter, the fund initiated a position in U.K. based British Land, and Canadian mall owner Primaris. The fund added to positions in Riocan, Unite Group, and Brixmor. The fund sold out of its positions in Colliers and the iShares Japan REIT ETF and decreased positions in Granite, Vonovia, American Tower, Kimco, Public Storage, and SBA Communications. The fund's top ten holdings as of December, 2024, included: Ventas, Equinix, VICI, American Homes 4 Rent, Chartwell Retirement Residences, Welltower, Prologis, Brixmor, Invitation Homes, and Host Hotels. The top ten holdings comprised approximately 38% of the fund.

SUBSECTOR REVIEW

We provide a brief overview of the underlying themes and outlook for many of the U.S. real estate subsectors. Within the U.S., some key overweights include single family rental, manufactured housing, healthcare and shopping centres, while some underweights include triple net lease, self storage, data centres and malls.

Retail

Shopping centres have an encouraging fundamental backdrop, with little in the way of new supply, and demand that is reasonably visible given the difference between in place occupancy and the signed but not occupied pipeline. With vacancy rates near their lows and little supply, rents have started to push upward which should drive respectable leasing spreads and organic growth. Acquisition activity has started to pick up which is supportive of values, and is an external growth engine more available for the REITs. The consumer appears to be in decent shape for now, but we will be monitoring whether measures adopted by President Trump impact inflation or higher interest rates curb ability to spend. Earnings growth is expected to be more modest versus the REIT sector at large, however valuations are also discounted to the broader REIT market.

Industrial

There are puts and takes with regard to the outlook for industrial. On the positive side, owing to a still strong mark-to-market opportunity and contractual escalators, industrial subsector cash flow per share growth is expected to be among the highest within the U.S. REIT space, and supply is poised to materially fall through 2025. In addition, balance sheets are reasonably healthy which could support external growth opportunities. On the other hand, visibility of a material demand recovery is low, and market rent trajectory is likely not to improve until this occurs. The impact and extent of potential tariffs remains uncertain and would likely be felt in varying degrees based on geography. For example, areas which would benefit from U.S. reshoring may see stronger demand for industrial space.

Office

Fundamentals appear to have troughed across many markets, while both financing and transaction markets are coming out of the doldrums. Though aggregate leasing volume is still subdued compared with pre-pandemic levels, performance varies greatly by asset and submarket. Trophy assets remain in reasonably high demand and have not seen material erosion in net effective rents, whereas lower quality commodity products will likely continue to struggle. With the new Department of Government Efficiency (DOGE) likely to cut jobs, Washington D.C. could be at risk whereas deregulation could lead to job creation in the financial services sector, which would be supportive of New York City. To the extent that capital is freed up in the banking sector through looser regulation, office stands to benefit from increased lender appetite. Given the back up in interest rates, there are still likely to be many motivated sellers over the coming twelve months, and office REITs are in a better position to act on opportunities than most private players. This is owing to their access to both the unsecured debt markets and equity markets.

Multifamily

The apartment sector as a whole should experience low single digit earnings growth over the next couple of years as markets continue to digest the record amount of supply deliveries through 2025. This should keep market rent growth relatively modest. However, like other asset classes, new construction start activity has fallen off and we believe 2026 should be a much better year from a supply growth perspective. Steady demand growth, underpinned by a healthy employment backdrop and household formation, should support improving market rent growth beginning in late 2025. Multifamily remains a preferred destination for private investors, and transactions are occurring at cap rates that are supportive of REIT values. U.S. apartment REITs have some of the best balance sheets in the real estate sector, and are positioned to capitalize on external growth, whether that be acquisitions or executing on development programs. We have had a preference for the coastal names over the sunbelt owing to the supply growth in the latter, however our stance is a bit more neutral given the outlook.

Single Family Rental (SFR)

High interest rates and still elevated home prices continue to tilt the affordability equation more favourably towards renting over owning, and so long as this dynamic remains in place, fundamentals should remain solid. We believe SFR earnings growth will outpace apartments for the next couple of years, though the overall pace of growth will be more moderate than the last couple of years. We have a preference for markets where there has been less new supply from homebuilders that are rolling out build-to-rent portfolios, such as the U.S. midwest. Balance sheets are well positioned which gives SFR REITs the opportunity to capitalize on external growth as there have been several portfolios that have been on the market. In addition, in the case of American Homes 4 Rent, the balance sheet supports its development pipeline which we also view as a positive.

Healthcare

We continue to be positive on the fundamental outlook for seniors housing. Demand should be reasonably predictable independent of what happens with policy under the new U.S. administration, and development economics remain unfavourable, acting as a constraint on supply. The risk of Medicare expanding to support home care will likely be off the table under a new Trump presidency, which removes a potential demand headwind. Occupancy should move higher, driving higher revenue and better margins. It is anticipated that occupancy should get closer to stabilized levels in 2026 at which point we expect pricing power to increase, driving another leg of growth. We will watch the labour market to see if any policy changes impact availability and wages, as salaries are one of the biggest expense items for the sector. We expect seniors housing to deliver among the best earnings growth profiles for the next few years.

With respect to medical office, we expect growth will remain moderate, as is generally the case with the asset class. Life science demand has yet to pick up meaningfully, and there are elevated supply deliveries in certain markets in 2025 which should restrict material rent growth. Like other asset classes, beyond 2025 the supply picture improves and into 2026 we could see a more balanced market, perhaps even tilting towards landlords if the new supply gets absorbed. A wild card on demand stems from the appointment of anti-vaccine activist Robert F Kennedy Jr. to Secretary of Health and Human Services.

Lodging

Revenue per available room (RevPAR) growth in 2025 is expected to be modestly above 2024 driven primarily by room rate. Lodging was among the poorest performing subsectors in 2024, and is trading at one of the lower multiples among subsectors. Despite a relatively muted fundamental backdrop, the subsector is still expected to grow earnings at a two year growth rate of nearly 5%. This is approximately 1% below the U.S. REIT sector, but only trades below 10x FFO compared with the broader US REITs trading at over 18x. Admittedly, outside of group bookings, reservations are generally cancellable without penalty making cash flow visibility more difficult than other contractual rent sectors which warrants a discount, in our view. A more risk-on tone and reignition of business travel could be positive for the subsector next year. Deportation of immigrants and the impact on labour cost/availability, and a strong US dollar having consumers travel abroad versus domestically are some potential headwinds to monitor.

Triple Net Lease

The sector is generally in good shape, with minimal tenant concerns at present, and a cost of capital advantage over the private sector to make accretive acquisitions. We do not expect much volatility in cap rates, unless policies under the incoming Trump presidency lead to a much higher for longer interest rate environment. Like retail, consumer headwinds are the biggest risk to watch. Within the net lease sector, the gaming REITs are well positioned with good costs of capital and a pandemic-proven tenant base. An issue to monitor is the smaller pool of U.S. casinos for sale. Also, more competition from other more traditional triple net lease REITs such as Realty Income Corp may lead to more acquisitions in less understood non-gaming sectors, or operations overseas which can be met with skepticism.

Data centres

Record leasing should continue into 2025 with tailwinds from secular themes such as generative AI and cloud adoption. Lead times for power connectivity depending on the market can range from three to eight years, making it difficult for supply to meet demand. Market rents should continue to ramp higher in the mid single digit to low double digit range which is a positive for incumbent landlords. Higher rents also make development attractive, with yields typically pencilling in the high single to low double digit range, leading to very strong development profits. The sector is among the most expensive within the REIT space, but earnings growth is expected to accelerate and be among the leading subsectors.

Towers

While stable, accelerated leasing growth is unlikely in 2025, with headwinds from interest rates, Sprint churn in the U.S. and a stronger US dollar for companies with global exposure. Bookings are starting to pick up slightly, but it takes time before this translates into revenue growth and may be more a story into 2026. Demand could start to ramp up more towards the end of 2025, but more meaningfully in 2026 with T-Mobile and DISH likely having requirements. As a long lease duration sector, towers could benefit from a lower long term interest rate environment, but from a fundamental growth perspective it screens less favourably in the near term.

OUTLOOK

The U.S. was the strongest global REIT market, outperforming particularly in Q4 2024. Several factors point to positive potential returns for real estate in 2025. Decreasing supply across most subsectors of the market, particularly apartments and industrial in the U.S., should lead to decreased vacancy and be constructive for rental rate increases. REITs screen relatively cheap versus the broader market with a Price/FFO (Funds From Operations) multiple of U.S. REITs below the P/E multiple of the S&P 500 Index versus a historical premium. As one of the equity market's higher yielding sectors, REITs also have the potential to benefit from fund flows out of money market type investments as rates drop and investors seek alternative yield investments.

In terms of geographies, Canada looks quite compelling from a valuation point of view as well as fundamentals that should prove better than the market is currently expecting. Canadian REITs have significantly underperformed since the federal government's announcement of decreasing immigration targets. The move down seems like an overreaction and a temporary pause in population growth (if it actually occurs) would bring markets closer to equilibrium rather than lead to an oversupply situation.

Bond yields remained quite impactful for the REIT market in 2024 and will likely continue to be in 2025. The consensus is for gradually declining medium to longer term bond yields as cooling inflation leads to further rate cuts by central banks. However, a key uncertainty is what policies incoming President Trump may unveil, and how these ripple through the economy. We expect there could be puts and takes, but pro-growth policies should be supportive for real estate fundamentals. As the landscape evolves, some issues to consider for U.S. REITs (which are the dominant share of the benchmark), many of which are somewhat intertwined, include:

1. **Potential for higher interest rates:** From a debt perspective, issuers with a high degree of variable debt will be most impacted by higher for longer short term rates. Most REITs employ a high proportion of fixed rate debt and refinancing assumptions have largely moved higher such that the incremental earnings impact to the "typical" U.S. REIT should be relatively moderate if longer term rates move a bit higher. We would not expect there to be cap rate compression, but this is not something we assume will happen (we typically underwrite cap rate expansion over time).

   Subsectors which have the potential to be most negatively impacted from an earnings perspective include U.S. office, given their generally elevated leverage profile. Interest rate volatility can be a headwind for CRE brokers such as CBRE to the extent that transaction activity stalls. Higher rates are a negative for self storage demand as higher rates may slow a hoped for rebound in housing activity. On the flip side, lower housing affordability is a relative positive for rental demand, especially for single family rental. From a straight up duration perspective, cell towers are generally the subsector with the longest lease terms so are more negatively impacted by higher rates, as was evidenced by their large underperformance after the election result.

2. **Inflation:** To the extent policies are inflationary, should construction costs ramp up, this would put future supply further at risk which could tighten up markets, especially since construction starts have really slowed for many asset classes. Should inflation exceed wage growth, this could pressure retail spending which could have an impact on leisure travel and lodging REITs, and overall retail spending (indirectly impacting retail REITs to extent retailers fail). Should there not be a negative demand response from inflation, lodging REITs theoretically are in the best position to pass on higher inflation with room rates resetting daily. Very few REITs in the U.S. have rent steps specifically tied to CPI. One notable exception is casino owner VICI which has 40% of its rent roll linked to CPI in 2024 and 90% of rent roll over the long term.

3. **Tariffs:** Generally tariffs are negative for trade, especially if onerous tariffs are placed on China. This could be detrimental to port activity on the west coast to the extent Chinese imports fall off. There are a handful of U.S. REITs with southern California exposure, with the largest being Rexford which is a "SoCal pureplay". If the goal of tariffs is for MAGA/reshoring, the industrial REIT beneficiaries could be ones in geographies where manufacturing resurges.

4. **Lower corporate taxes:** Due to their structure, REITs are generally not subject to income taxes and, therefore, changes in corporate tax rates generally have no bottom line impact to REITs. Within the real estate Global Industry Classification Standard (GICS) sector, CRE brokers are corporations and pay tax, so would be in a position to benefit. Should lower taxes stimulate overall business activity, there could be some positive demand in lodging from business/group travel, which would benefit lodging REITs that have higher weighting to this activity compared with leisure demand.

5. **Looser regulation:** It is generally believed the regulatory environment could become less onerous. This could be beneficial to the residential rental industry. Political momentum over ideas such as limiting the institutional ownership of rental real estate will likely wane, and rental regulation campaigns will likely be limited in effectiveness. On the healthcare side, there could be changes to minimum staffing requirements which would increase the profitability of skilled nursing facility owners and improve rent coverage metrics for REITs that own the assets.

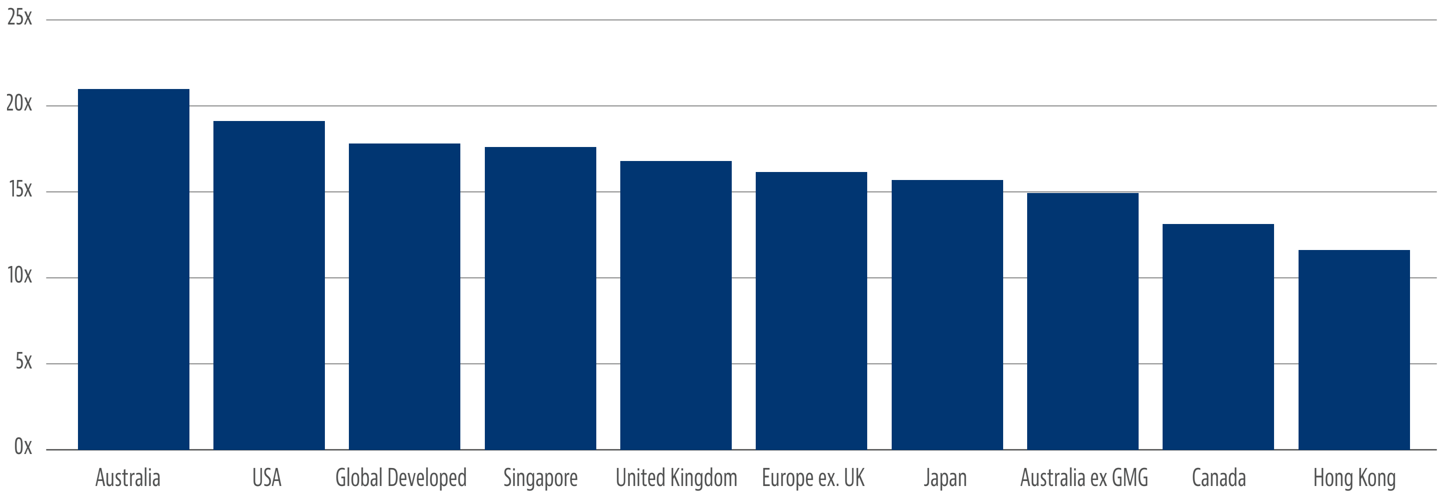
6. **Immigration:** The primary impact of stricter immigration measures would likely be on labour - both availability and cost. The more operating intensive sectors would stand to face the most impact on this front, such as hotels, seniors housing, and indirectly, retail. There could be some modest negative impact on rental demand, but would be market specific.

7. **Impact on other geographies:** With the threat of tariffs and the potential impact to ex-U.S. trading partner economic growth, it's possible central banks in these areas (like Europe and Canada) may remain more accommodative (i.e. rate cuts may outpace those in the U.S.). A growing rate differential should be supportive for the US dollar, so global REITs with assets in the U.S. stand to benefit in local currency terms. For example, Granite REIT, where half of its revenues stem from the U.S., with results translated into Canadian dollars. Should there be a resurgence in inflation in other markets, as mentioned earlier, most U.S. REITs do not have leases tied to CPI, however in Europe, most leases are tied to inflation so could see better than expected rent growth.

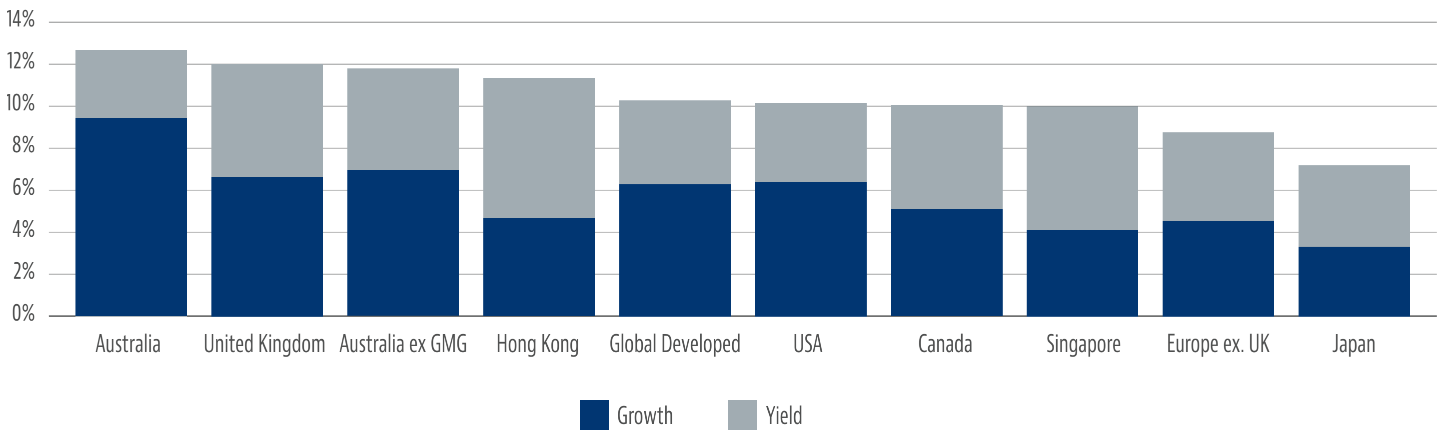
We estimate the global (FTSE EPRA Nareit Developed) benchmark is trading at a forward earnings multiple of just over 17x, largely driven by the U.S. constituents (more than 60% of benchmark weight) which are trading at over 18x. Among developed markets, EPRA Australia screens as the most expensive at nearly 20x. However, after stripping out Goodman Group, which is being driven by its data centre development platform and accounts for approximately 40% of EPRA Australia, the multiple falls to around 15x. The cheapest real estate markets on an earnings multiple basis are Canada and Hong Kong.

In terms of earnings growth, the U.K. and Australia are expected to have the highest earnings growth over the next two years, while Japan and Singapore are expected to have the lowest. In terms of yield, the highest yielding markets are Hong Kong, Singapore and the U.K., while the lowest yields are found in the U.S. and Japan. Without any change in the multiple, an expectation of returns can be the sum of earnings growth plus the yield. Ranked in this fashion, the U.K. and Australia screen near the top, while Japan and Europe screen near the bottom. If we consider the earnings multiple against the earnings growth and yield prospects, we can calculate a "PEGY" ratio which can be thought of the multiple being paid for each unit of growth plus the yield. The most expensive markets would be Japan and the U.S., while cheaper markets include Hong Kong and Canada. The fund is positioned to be underweight the U.S. and Asia Pacific, roughly market weight Europe, and overweight Canada.

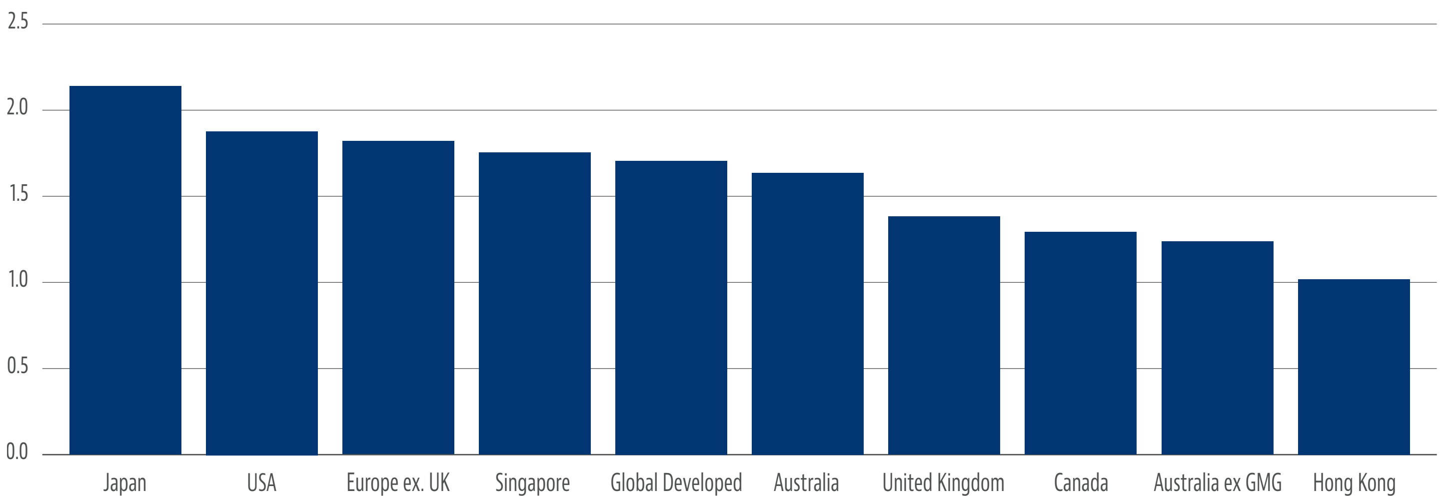
PRICE TO NEXT TWELVE MONTHS FUNDS FROM OPERATIONS (NTM FFO)



EARNINGS GROWTH COMPOUND ANNUAL GROWTH RATE (CAGR) + YIELD



PRICE/EARNINGS-TO-GROWTH AND DIVIDEND YIELD RATIO (PEGY)



Source: Bloomberg Finance L.P. and CI Global Asset Management

We estimate the FTSE EPRA/NAREIT Developed Index and FTSE EPRA/NAREIT Developed Total Return Index are trading in line with net asset value (NAV), though there is dispersion among subsectors and geographies. For example, data centres and healthcare REITs in the U.S. are trading at 20%+ premiums to NAV, while single family rental and lodging REITs are trading at double digit discounts.

By geography, the U.S. is trading at a low single digit premium to NAV, while markets like Canada and the U.K. are trading near 20% discounts. We believe the REITs in the fund are trading at near 20% discounts at the time of writing. Assuming no change to cap rates, we could envision NAVs growing in the low to mid single digit range. Combined with the distribution, an attractive total return could be achieved by unitholders, with a closing of the NAV gap providing additional return potential.

CI GLOBAL REIT FUND

1Y%	3Y%	5Y%	10Y%	S.I%*
5.8	-4.9	1.6	4.7	5.9

*Inception date July 28, 2005, as of December 31, 2024

GLOSSARY OF TERMS

Duration: A measure of the sensitivity of the price of a fixed income investment to a change in interest rates. Duration is expressed as number of years. The price of a bond with a longer duration would be expected to rise (fall) more than the price of a bond with lower duration when interest rates fall (rise).

Volatility: Measures how much the price of a security, derivative, or index fluctuates. The most commonly used measure of volatility when it comes to investment funds is standard deviation.

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GLOBAL ASSET MANAGEMENT

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