Timbercreek

Timbercreek Global Real Estate Income Fund

Quarterly Manager Commentary

As of December 31, 2018

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Q4 2018 HIGHLIGHTS

- Increased exposure to Belgium
- Increased exposure to data centre and office REITs
- Added two new common equity holdings while exiting five

MARKET OVERVIEW

2018 started out as a promising year driven by synchronized global growth propelling most asset classes to new highs but quickly morphed into an unbalanced one beginning in the fourth quarter. Factors such as escalating trade wars, Brexit fears, rising interest rates in North America, slowing economic growth in China, political instability in Washington D.C., higher budget deficits in Italy and wider credit spreads, all had a hand in weighing down the markets. Investors began to doubt previous growth expectations leading to a collapse in stock markets globally, a spike in volatility, a flatter yield curve and falling oil prices for the second time in three years. So, amid all this activity how did REITs fare?

Global real estate securities served as a beacon of safety relative to most other sectors during the turbulent times of 2018. Although global REITs underperformed our own expectations for the year (-4.7% in USD) as a result of the impact from rising interest rates and other macro headwinds, earnings growth exceeded our forecasts. This growth along with the defensive nature of the asset class allowed REITs to play catch-up in the fourth quarter, outperforming global equities by 785 basis points (bps) (-5.5% vs. -13.3%)[1,2].

In terms of specific market performance, U.K. REITs suffered from rising uncertainty around Brexit, rendering them the worst performing region in the quarter, down 9.3% (GBP)[3]. We believe Brexit will continue to remain a headwind for London's property market. Not far behind was Continental Europe down 8.1% (EUR) led by the Netherlands (-19.7% in EUR) and France (-15.4%)[4]. France suffered from yellow jacket protests that zapped confidence in Macron and disrupted Paris. The Netherlands was dragged down by Unibail which saw its share price decline by more than 20%. U.S. REITs underperformed, declining 6.0% (USD) as the weight of political instability in Washington D.C., coupled with higher interest rates, negatively impacted stock prices[5]. Singapore and Canada outperformed in the quarter, declining 3.8% (SGD) and 3.4% (CAD)[6,7]. Both markets tend to be more yield-oriented and less dependent on growth which helped buoy share prices. Japan also outperformed declining 2.8% (JPY)[8]. Japan continues to benefit from central bank quantitative easing policies and steady property fundamentals particularly in the office sector. Hong Kong outperformed its peers, escaping the market's downdraft by declining only 0.8% (HKD)[9]. Hong Kong's outperformance in the quarter had more to do with the fact that stock prices were already down heading into the fourth quarter caused by slowing economic growth in China. Australia delivered the best performance in the quarter, down one basis point[10]. Australia's property sector tends to exhibit defensive characteristics such as longer-term leases with higher contractual rent bumps that helps support share prices in turbulent times.

FUND PERFORMANCE

The Fund generated a -0.8% total return (CAD) in the quarter, finishing 2018 up 2.0% (CAD).

In terms of what worked, Australian-based National Storage REIT and Charter Hall Retail REIT generated a +7.7% and +8.9% (AUD) total return. Both companies proved defensive during the quarter. Demand for self-storage tends to be more needs-based rather than cyclically driven making National Storage's cash flow growth profile more resilient in a downturn. Charter Hall Retail REIT owns a necessity-based shopping centre portfolio typically anchored by a grocer with a customer traffic profile less cyclical than regional malls.

In the U.S., healthcare REITs HCP and Ventas delivered a +7.5% and +9.2% (USD) total return as investors sought safety in less cyclical businesses. We believe Ventas' strong balance sheet positions the company to acquire properties in an accretive manner while HCP's re-cast portfolio focused on medical office and life science properties positions the company favourably going forward.

Annualized Returns[11]	3 Month	6 Month	1 Year	Since Inception[12]
Net Fund Returns	-0.8%	-1.6%	2.0%	6.7%

Indices: [1]FTSE EPRA NAREIT Developed Total Return Index, [2]MSCI World Index, [3]FTSE EPRA NAREIT U.K. Index, [4]FTSE EPRA NAREIT Developed Europe ex UK Index, [5]EPRA NAREIT United States Total Return Index, [6]FTSE EPRA NAREIT Singapore Index, [7]FTSE EPRA NAREIT Canada Index, [8]FTSE EPRA NAREIT Japan Index, [9]FTSE EPRA NAREIT Hong Kong Index, [10]FTSE EPRA NAREIT Australia Index. [11]The returns are based on Founder Class units, net of all fees and expenses. For more information about the risk rating and specific risks that can affect the Fund's returns, see the 'What are the risk of investing in the Fund?' section of the Fund's simplified Prospectus. On January 22, 2018, Timbercreek Global Real Estate Income Fund completed a fund merger with Timbercreek Global Real Estate Fund. The calendar returns for Class A securities of Timbercreek Global Real Estate Fund were as follow (as of December 31, 2017, the last completed monthly period): 2015: 4.3%; 2016: 8.8%; 2017: 3.9%. [12]June 25, 2015.

FUND PERFORMANCE CONT.

Portfolio Allocation by Sector*	% of NAV
Office	15.8
Shopping Centre	15.6
Diversified	14.6
Industrial	11.3
Triple Net Lease	9.6
Mortgage REITs	7.7
Regional Mall	6.9
Data Centre	5.4
Healthcare	5.0
Self Storage	2.3
Multifamily	1.9
Student Housing	1.7
Hotel	1.5
Cash and Cash Eqv	1.9

Portfolio Allocation by Region*	% of NAV
United States	48.5
Singapore	8.0
Australia	7.6
Japan	7.6
Canada	7.2
France	4.4
Hong Kong	4.3
Belgium	3.8
Ireland	3.4
New Zealand	1.9
Netherlands	1.9
Norway	0.6
Cash and Cash Eqv	1.9

Japanese REITs outperformed during the quarter with GLP J-REIT and Star Asia leading the way gaining 1.3% and 1.4% (JPY). GLP J-REIT is Japan's largest industrial landlord owning 76 properties averaging over 300K square feet with nearly half located in greater Tokyo. We believe GLP's portfolio is well positioned to benefit from growth in e-commerce. We believe Star Asia's strategy is unique relative to other J-REITs in that they focus on creating value by maximizing the cash flow of existing properties rather than focusing exclusively on overall portfolio growth.

Increased volatility negatively impacted several sectors. In the U.S., diversified REIT Colony Capital, hotel REIT Chesapeake Lodging Trust, shopping centre REIT Kite Realty Group Trust and U.S. REIT preferred shares as an asset class underperformed. Colony Capital's share priced declined 21.4% (USD), detracting 42 bps from performance. Companies in transition typically underperform during market corrections and Colony's share price followed a similar path. Chesapeake and Kite Realty saw their shares decline 22.8% and 13.6% (USD), weighed down by growth concerns, detracting 31 bps and 27 bps from performance. Over 50% of Chesapeake's and 100% of Kite Realty's share price decline took place in the last two weeks of December. Lastly, U.S. REIT preferred shares, comprising ~30% of the portfolio, underperformed common equities in quarter. We believe the underperformance of preferred shares was largely driven by ETF redemptions that created excess selling pressure on the market. Given U.S. REIT preferred shares are typically less liquid than common equities (which is partly why investors get compensated with higher yields) we believe this indiscriminate selling pressure throughout the fourth quarter pushed prices lower by more than what's justified by underlying fundamentals.

In Canada, Automotive Properties REIT (APR) declined 14.2% (CAD), detracting 25 bps from performance. APR delivered a good set of earnings results in November, with core operations remaining steady, tenant diversification improving and the company acquiring two properties for C$56 million. We believe the sell-off has created an opportunity to add to our position.

In France, Mercialys and Klepierre declined 10.3% and 11.7% (EUR). Combined, the two positions detracted 39 bps from performance. Over 55% of Klepierre's and over 75% of Mercialys's share price decline took place in the last two weeks of December. We believe the bulk of the underperformance was driven by the yellow jacket protests which picked up momentum during the quarter, temporarily disrupting business in Paris.

CHANGES IN PORTFOLIO

Geographically, the portfolio's exposure to Belgium increased while exposure to Spain decreased. From a sector perspective, exposure to companies that own data centres and office properties increased while exposure to healthcare and diversified REITs decreased.

In the U.S., we swapped our position in Chesapeake Lodging Trust for Park Hotels at the end of December driven by our ability to capture a nearly 4% dividend yield. Chesapeake and Park own comparable portfolios (both high quality) with similar balance sheets (Net Debt to EBTIDA is ~5x) and similar upside (~20%), yet we feel Park's geographic exposures to San Francisco, Hawaii and Orlando well position the company to deliver sector-leading same store RevPAR growth in 2019.

In Belgium, we added Befimmo to the portfolio. We believe the company's Brussels-led office portfolio is benefiting from an improving fundamental outlook while uncertainty in London created by Brexit is creating shadow demand from corporations looking to Continental European cities as a way to diversify their office locations. Befimmo's office portfolio is highly occupied (94%) and mostly located in Brussels (69%) of which 55% is situated in the central business district (CBD). Befimmo boasts a well-diversified tenant roster with over a seven-year average lease term and an equity market capitalization of ~EUR1.3 billion. We see the company's shares as attractively priced to deliver a 7% dividend yield.

MARKET OUTLOOK

The long duration of the current economic expansion by historical standards combined with the re-pricing of growth expectations beginning in the fourth quarter of 2018 has invoked fears of a recession. We do not believe a recession is imminent, but we are cognizant that the growth trajectory is changing. With economic headwinds such as tariffs, slower growth in China, tighter monetary policy in the U.S. and Canada, as well as reduced quantitative easing globally, we would be remiss to not see these factors weigh on global growth over the coming year.

*Percentages will change over time due to ongoing investments. The portfolio manager(s) may change the percentage range in some or all of the sectors and countries.

MARKET OUTLOOK CONT.

Having said this, REITs and their recurring income streams have proven to be a powerful solution in a slowing GDP environment. Contractual leases held within REITs and their more predictable generation of cash flow provide investors a level of reliability that many other sectors are unable to match in uncertain markets. In turbulent times, markets hate uncertainty which is why you can expect more investors to shift capital towards defensive asset classes like REITs where there is a higher degree of transparency.

We believe a slower economic growth environment sets the stage for REITs to outperform broad equities and continue their Tortoise (REITs) and the Hare (General Equities/Technology) campaign in 2019 by generating an attractive total return balanced between yield and growth. This outlook is premised on five key factors:

1. REIT outperformance typically grows in magnitude and frequency as economic growth slows.
2. Global REIT earnings growth will be more resilient than global equities in 2019, setting the stage for better relative performance.
3. Global REIT valuations are attractive relative to global equities.
4. Public market valuations are attractive relative to private market valuations trading at an 11% discount to NAV.
5. Institutions are expected to increase allocations to real estate in 2019 which when combined with large unfunded commitments will be supportive of real estate valuations.

Despite being later in the cycle and the range of outcomes in 2019 feeling wider with macro-economic uncertainty higher, our bottom-up fundamental analysis currently suggests that global REITs are priced to generate a positive total return in 2019 in the range of 9–10%. This return consists of a 5% cash flow yield and 4–5% earnings growth driven by, increases in annual contractual rent bumps, positive releasing spreads and completion of redevelopment and development projects currently underway.

Our view is that the greater the percentage of your total return coming from recurring income versus future growth, the higher the degree of confidence you can have in achieving that total return.

We believe there are several big risks to achieving our 2019 total return forecast which include: tariffs and their economic impact on China, continued Brexit fears, U.S. interest rate policy, political instability in Washington D.C., higher levels of new supply across multiple property types and markets, higher labor costs, wider credit spreads and more restrictive central bank quantitative easing programs.

REIT operating fundamentals will be driven by changes in the direction of the overall economic environment and to the extent that growth decelerates more than anticipated, REIT fundamentals will also decelerate but should hold up better than other sectors given the high degree of contractual recurring cash flow.

All in all, we believe in a market where growth is slowing, and interest rate expectations are peaking, global real estate is well positioned to serve as a beacon of safety again in 2019. This sets the stage for outperformance compared to broad equities while generating an attractive absolute total return driven more by yield than growth.

We have identified a number of investment opportunities – across geographies and property types – for the year ahead, outlined below.

United States:

- Secular growth opportunities in the world of technology
- Apartments benefiting from a slower for-sale housing market
- Triple Net Lease REITs offering attractive external growth and high cash-on-cash returns

Canada:

- Industrial REITs benefiting from e-commerce
- Outsized demand growth for Senior Housing driven by strong demographics

Europe:

- Residential opportunities in Ireland and Germany
- Office markets in Belgium and the Netherlands benefiting from Brexit

MARKET OUTLOOK CONT.

Japan:

- Small- to medium-sized Grade B office buildings located in Tokyo

Hong Kong:

- Decentralized office markets experiencing strong demand and rising rents

Singapore:

- Data centres positioned to take advantage of growth in Asia

Australia:

- Non-discretionary retail shopping centres offering resilience
- Specialty property types offering attractive yields and total returns

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