

PALOS

CONTENTS

Weekly Commentary

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Dream Industrial - tenants keep on "paying the rent"	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

By Charles Marleau, CIM

Dream Industrial - tenants keep on "paying the rent"

Dream Industrial REIT (TSX: DIR-UN) is an open-ended, Canadian based Real Estate Investment Trust that owns and operates a portfolio of 262 industrial properties. The company's primary focus is on distribution and urban logistics in key North American markets, and a growth strategy that includes an increased presence in Europe. As of March 31st, DIR's properties totaled approximately 25.8 million square feet of industrial rental space. The portfolio is well diversified by geography, tenant, industry, and size. DIR has a market capitalization of \$1.8 billion CAD and pays an annual distribution of \$0.70 per unit.

On June 24th, management provided investors with an operational and business update. While management acknowledged that the COVID-19 pandemic has created a challenging business environment, CEO Brian Pauls stated that DIR has "maintained occupancy, continued leasing momentum, and rent collections have been good." In fact, over 95% of the gross rents were collected for April and May, after adjusting for deferrals. As of June 24th, DIR has collected 90% of June rents which tracks ahead of the equivalent business dates in April and May. While DIR has agreed to defer \$2.3million or 3.5% of gross rent for the second quarter of 2020, it is expected that these deferrals will be collected by year end.

With regards to liquidity, DIR is well capitalized. The company recently announced an increase in its unsecured revolving credit facility which increases available liquidity to \$400 million. Between cash-on-hand and its undrawn credit facility, net debt to assets is currently at 28%. This makes DIR one of the best capitalized REITs on the TSX and well positioned to pursue their growth strategy. DIR is currently in negotiations to acquire \$52 million in properties located in Montreal and the Netherlands that are expected to close in the fourth quarter of 2020.

While the impact of the pandemic has caused consternation among real estate investors, I believe that markets are placing an unjustified discount on the valuation of DIR. Investor apprehension should diminish over time as markets recognize that the quality of DIR's assets, along with the resiliency of the distribution and logistics sector, should be viewed as positives. Not to be overlooked is the fact that DIR's portfolio is distinguished from more vulnerable sub-sectors of the REITs universe like residential, retail, and commercial. Given a strong balance sheet and the fact that DIR's tenants keep on "paying the rent", current Net Asset

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Value (NAV) of \$11.50 per unit should be recovered in the near term. In the long term, the company's financial strength will allow for the pursuit of strategic acquisitions and further value creation for unitholders.

Disclaimer: Palos Funds are shareholders of DIR-UN.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.12	-10.92%
Palos Equity Income Fund - RRSP	PAL101	\$5.15	-8.83%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$7.79	-1.73%
Palos-Mitchell Alpha Fund ³	PAL300	\$7.91	-23.80%
S&P TSX Composite (Total Return with dividends reinvested)			-6.99%
S&P 500 (Total Return with dividends reinvested)			-2.13%
S&P TSX Venture (Total Return with dividends reinvested)			8.85%
Chart 2: Market Data ¹			Value
US Government 10-Year			0.67%
Canadian Government 10-Year			0.56%
Crude Oil Spot			US \$40.66
Gold Spot			US \$1,790.00
US Gov't 10-Year/Moody BAA Corp. Spread			291 bps
USD/CAD Exchange Rate Spot			US \$0.7382

¹ Period ending July 3, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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