

PALOS

CONTENTS

Weekly Commentary

Issue No. 37 | AUGUST 31, 2020

Tricon Residential - Single Family Housing in Hot Demand	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

By Charles Marleau, CIM

Tricon Residential - Single Family Housing in Hot Demand

Tricon Residential Inc. (TSX: TCN) owns and operates approximately 30,000 single-family and multi-family rental units in 21 markets, in both Canada and the United States. In the **Tricon American Homes** business, the single-family portfolio has approximately 96% of its units located in the U.S. Sun Belt. In line with the company's focus on urban areas that exhibit strong economic fundamentals and population growth, U.S. sunbelt population growth is projected to grow between 10% and 25% over the next decade, depending on the state.

On August 5, the company released its financial results for Q2/2020 and despite the impact of the pandemic, it was a solid quarter. Reporting in U.S. dollars, Net Operating Income (NOI) was \$77 million versus \$50.8 million for same quarter 2019. The gain was mostly driven by a larger single-family portfolio and the inclusion of a full quarter of U.S. operations versus a half-quarter in 2019. NOI for Q2/20 exceeded Q1/20 by \$2.5 million despite Covid related challenges. From March 1 to July 31, Tricon collected 99% of rents due in the single-family unit segment and 98% in the multi-family segment. At the end of July, only 2% of single-family and 4% of multi-family renters had requested a deferral.

Following the earnings release, President & CEO Gary Berman commented that the company's resiliency during the pandemic was attributable to the company's focus on the middle-market and the sunbelt. Further, Covid fueled trends towards suburbanization, lower density, and a growing need for work-from-home space, provided a tailwind. Single-family homes reached a company record of 97.5% occupancy.

Earlier this year, management announced its firm commitment to adhere to the principles of Environment, Social, and Governance (ESG). Tricon's "ESG Roadmap" formalizes the company's pledge to improve the quality of life for employees, build stronger relationships with residents, and enact policies addressing social inequalities. Initiatives include a minimum living wage, reducing TCN's environmental impact, and advancing diversity and inclusiveness at all levels within the company. Management strongly supports a company-wide commitment to enact positive social change, and to enshrine an inclusive approach regarding relationships with employees and residents.

On August 27, Tricon announced that a syndicate of investors led by Blackstone Real Estate Income Trust Inc., has agreed to invest USD\$300 million in Tricon. Issued on a private placement basis, the newly created preferred equity units are exchangeable into a minority investment in TCN. Tricon intends to use the full proceeds to repay

By Charles Marleau, CIM

its credit facility which in turn will strengthen the balance sheet by reducing leverage to 56% debt/assets. The company previously stated its commitment to a near term target of 50-55% net debt/assets.

Since the company's inception in 1988, Tricon has amassed a real estate portfolio with a valuation exceeding \$20 billion. With over 700 employees worldwide, TCN has a market capitalization of \$1.9 billion and recently declared a quarterly dividend of \$0.72 per share. The company's objective is to provide shareholders with long-term, superior risk adjusted returns while preserving its commitment to the highest standards of corporate governance, social accountability, and industry best practices.

Given Tricon's investment attractiveness from a growing community of ESG conscious investors, a high-quality defensive portfolio, and the recent investment from Blackrock lending validation to Tricon's business model, we view the company as a highly attractive investment with a compelling valuation. Tricon pays a 2.8% dividend yield and has a 1.8% weighting in The Palos Income Fund.

Disclaimer: Palos Funds are shareholders of TCN.

Follow us on LinkedIn:



Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.87	-1.53%
Palos Equity Income Fund - RRSP	PAL101	\$5.64	-0.30%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$9.28	11.20%
Palos-Mitchell Alpha Fund ³	PAL300	\$9.19	-11.39%
S&P TSX Composite (Total Return with dividends reinvested)			0.09%
S&P 500 (Total Return with dividends reinvested)			9.97%
S&P TSX Venture (Total Return with dividends reinvested)			29.33%
Chart 2: Market Data ¹			Value
US Government 10-Year			0.72%
Canadian Government 10-Year			0.63%
Crude Oil Spot			US \$42.97
Gold Spot			US \$1966.80
US Gov't10-Year/Moody BAA Corp. Spread			270 bps
USD/CAD Exchange Rate Spot			US \$0.7634

¹ Period ending August 28, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

Weekly Commentary

Issue No. 37 | AUGUST 31, 2020

Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., "Palos"). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos' written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. "S&P" is a registered trademark of Standard and Poor's Financial Services LLC. "TSX" is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, market value weighted index engineered to measure publicly issued noninvestment grade USD fixed rate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM.

PALOS

1 Place Ville Marie, Suite 1670
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

www.palos.ca