

## **An Analysis of Centurion's Fund Returns vs. the Market's**



We recently ran some comparative analysis of how our funds have performed against the broader market. We compared Centurion Apartment Real Estate Investment Trust ("the REIT") and Centurion Real Estate Opportunities Trust ("the REOT") with:

- Canadian Government Bonds (iShares Canadian Government Bond ETF)
- High Yield Corporate Bonds (iShares iBoxx High Yield Corporate Bond ETF)
- The S&P/TSX 60 (iShares S&P/TSX 60 ETF)
- Canadian publicly traded REITs (iShares S&P/TSX Capped REIT ETF)
- Gold (SPDR Gold Shares ETF)

We set out to measure how we have delivered on three things that investors tell us they are looking for.

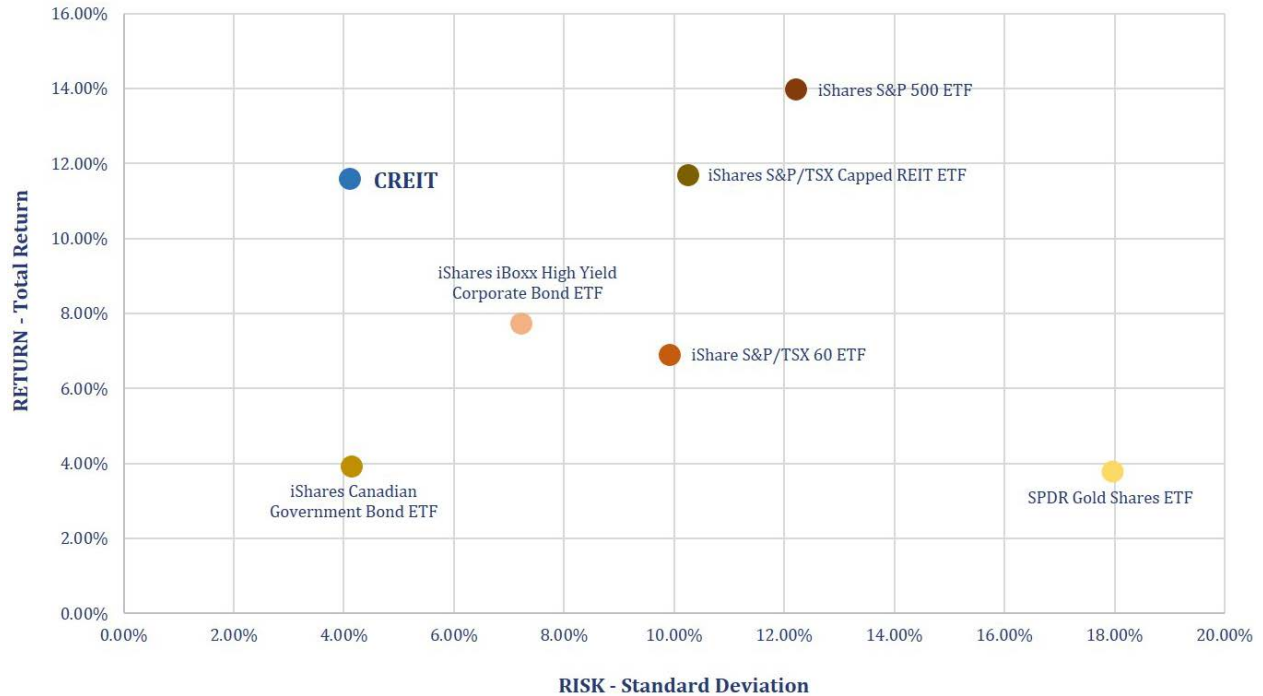
- Total Returns
- Low Volatility
- Diversification

While this analysis is not a comprehensive measure of all risks, in my mind, it is a nice summary of why Centurion exists as an asset manager which is to deliver what investors come to us for. We used ETFs rather than indices themselves to capture management fees and dividends and thought these would be the best comparison and they were readily available.

### **Investment Returns and Volatility of Returns**

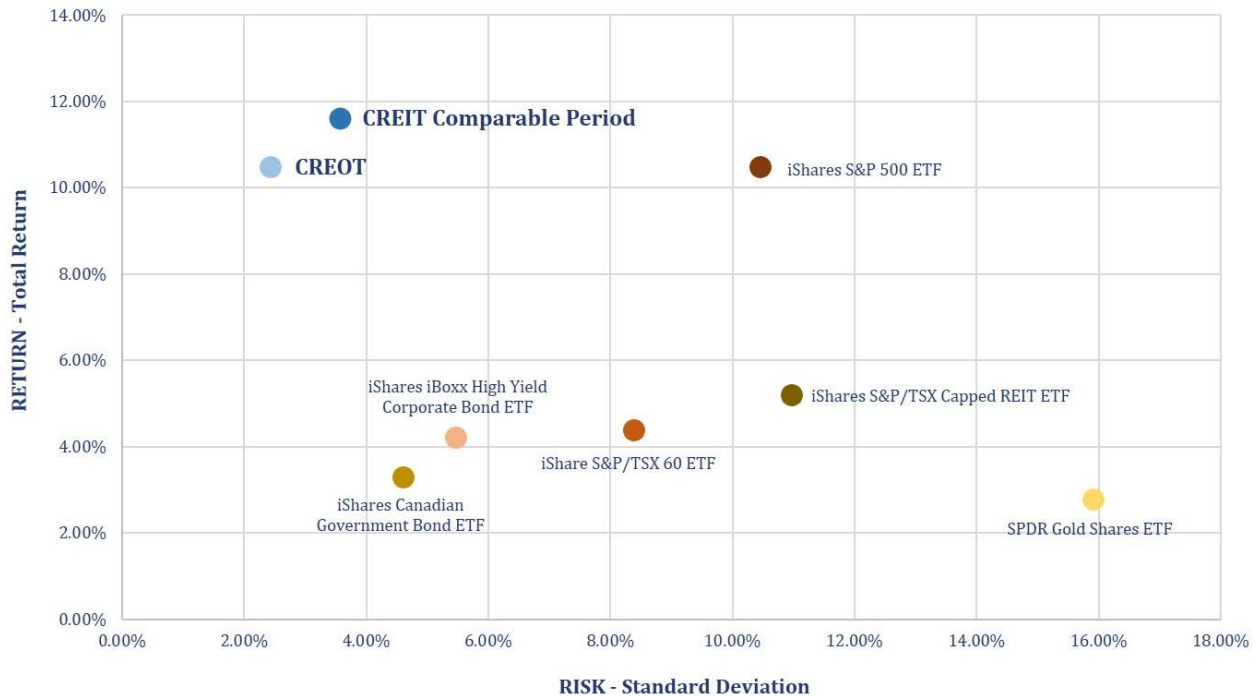
We present the results of this analysis in two charts below. The vertical axis represents total annual return (i.e., higher is better) and the horizontal axis represents volatility of return as measured by the standard deviation of the return (i.e., the lower the volatility, the better).

### Centurion Apartment REIT Return and Volatility Since Inception (August 2009 – August 2017)



In this chart, you can see that the REIT is “Top Left”, meaning the highest return with the lowest volatility. You will notice that only the S&P 500 outperformed the REIT on return but with almost triple the volatility and measured from what was almost the bottom of the market. As such, if we pick a different time series, the REIT’s outperformance would be even more extreme. Compared to the TSX Capped REIT Index (of Canadian publicly traded REITs), the REIT got almost the same return but with about 60% less volatility.

### Centurion REOT Return and Volatility Since Inception (September 2014 – August 2017)



Since the REOT has not been around as long as the REIT, we ran a similar table going back to its founding and re-ran the analysis over that time horizon. What we found is that the REOT produced slightly lower annual returns than the REIT, but did so with less volatility.

#### Diversification Benefits

Aside from absolute return levels and low volatility, investors come to our funds for diversification. On these measures, both the REIT and REOT have performed well in that capacity. We analyzed monthly returns, quarterly returns, and serial returns to run our correlations. Since our funds are marked to market on a quarterly basis, we thought this is a better measure than monthly returns. We also analyzed serial returns lagged by one quarter to attempt to capture whether return correlations lagged (in other words, do public markets lead and private markets follow as many market commentators would suggest). There appears to be little correlation to public equities for both funds. Technically, the REIT is negatively correlated to the S&P 500, which does not really surprise us because when stocks are doing poorly, bonds are often doing well, and real estate capitalization rates tend to correlate with long-term bond yields. Further, this seems to coincide with our own anecdotal experience that in stock market downturns we seem to have more demand for the REIT than when the stock market is booming. We were somewhat surprised by the near-zero correlation to public REIT returns but note that much of that gap may be accounted for by the medium correlation (45%) between the TSX and Canadian REITs, and their medium correlation (44%) to government bonds.

## **Conclusions**

Based on our analysis, we conclude that Centurion's funds have been able to outperform on the three things that most of our investors seem to come to us for: 1) total return, 2) low volatility, and 3) diversification, away from traditional investments.

We present the data below so you can draw your own conclusions.

**Greg Romundt**

## Centurion Apartment REIT Tables

### Centurion Apartment REIT – Quarterly Return Correlation Matrix

September 2009 to June 2017

	<i>Centurion Apartment REIT</i>	<i>iShares S&amp;P 500 ETF</i>	<i>iShares Canadian Government Bond ETF</i>	<i>iShares iBoxx High Yield Corporate Bond ETF</i>	<i>iShares S&amp;P/TSX 60 ETF</i>	<i>iShares S&amp;P/TSX Capped REIT ETF</i>	<i>SDPR Gold Shares ETF</i>
Centurion Apartment REIT	1.00						
iShares S&P 500 ETF	-0.14	1.00					
iShares Canadian Government Bond ETF	0.00	-0.33	1.00				
iShares iBoxx High Yield Corporate Bond ETF	-0.03	0.69	0.04	1.00			
iShares S&P/TSX 60 ETF	-0.31	0.77	-0.21	0.74	1.00		
iShares S&P/TSX Capped REIT ETF	0.00	0.28	0.44	0.63	0.45	1.00	
SDPR Gold Shares ETF	-0.29	-0.09	0.49	0.21	0.17	0.42	1.00

### Centurion Apartment REIT – Quarterly Serial Return Correlation Matrix

September 2009 to June 2017

	<i>Centurion Apartment REIT</i>	<i>iShares S&amp;P 500 ETF</i>	<i>iShares Canadian Government Bond ETF</i>	<i>iShares iBoxx High Yield Corporate Bond ETF</i>	<i>iShares S&amp;P/TSX 60 ETF</i>	<i>iShares S&amp;P/TSX Capped REIT ETF</i>	<i>SDPR Gold Shares ETF</i>
Centurion Apartment REIT	1.00						
iShares S&P 500 ETF	0.27	1.00					
iShares Canadian Government Bond ETF	-0.12	-0.33	1.00				
iShares iBoxx High Yield Corporate Bond ETF	0.09	0.69	0.04	1.00			
iShares S&P/TSX 60 ETF	0.04	0.77	-0.21	0.74	1.00		
iShares S&P/TSX Capped REIT ETF	0.04	0.28	0.44	0.63	0.45	1.00	
SDPR Gold Shares ETF	0.13	-0.09	0.49	0.21	0.17	0.42	1.00

### Centurion Apartment REIT – Monthly Return Correlation Matrix

August 2009 to August 2017

	<i>Centurion Apartment REIT</i>	<i>iShares S&amp;P 500 ETF</i>	<i>iShares Canadian Government Bond ETF</i>	<i>iShares iBoxx High Yield Corporate Bond ETF</i>	<i>iShares S&amp;P/TSX 60 ETF</i>	<i>iShares S&amp;P/TSX Capped REIT ETF</i>	<i>SDPR Gold Shares ETF</i>
Centurion Apartment REIT	1.00						
iShares S&P 500 ETF	-0.18	1.00					
iShares Canadian Government Bond ETF	0.20	-0.26	1.00				
iShares iBoxx High Yield Corporate Bond ETF	-0.18	0.73	-0.06	1.00			
iShares S&P/TSX 60 ETF	-0.24	0.71	-0.19	0.60	1.00		
iShares S&P/TSX Capped REIT ETF	0.03	0.28	0.37	0.49	0.32	1.00	
SDPR Gold Shares ETF	-0.18	0.09	0.28	0.23	0.32	0.16	1.00

## Centurion REOT Tables

### Centurion REOT – Quarterly Return Correlation Matrix

September 2017 to June 2017

	<i>Centurion REOT</i>	<i>iShares S&amp;P 500 ETF</i>	<i>iShares Canadian Government Bond ETF</i>	<i>iShares iBoxx High Yield Corporate Bond ETF</i>	<i>iShares S&amp;P/TSX 60 ETF</i>	<i>iShares S&amp;P/TSX Capped REIT ETF</i>	<i>SDPR Gold Shares ETF</i>	<i>Centurion Apartment REIT Comparable Period</i>
Centurion Apartment REIT	1.00							
iShares S&P 500 ETF	0.26	1.00						
iShares Canadian Government Bond ETF	-0.07	0.10	1.00					
iShares iBoxx High Yield Corporate Bond ETF	0.65	0.43	0.32	1.00				
iShares S&P/TSX 60 ETF	0.43	0.48	0.08	0.80	1.00			
iShares S&P/TSX Capped REIT ETF	0.23	0.09	0.58	0.60	0.53	1.00		
SDPR Gold Shares ETF	0.17	0.09	0.54	0.60	0.33	0.68	1.00	
Centurion Apartment REIT Comparable Period	0.29	0.49	-0.13	0.00	0.05	-0.08	-0.30	1.00

### Centurion REOT – Quarterly Return Serial Correlation Matrix

September 2014 to June 2017

	<i>Centurion REOT</i>	<i>iShares S&amp;P 500 ETF</i>	<i>iShares Canadian Government Bond ETF</i>	<i>iShares iBoxx High Yield Corporate Bond ETF</i>	<i>iShares S&amp;P/TSX 60 ETF</i>	<i>iShares S&amp;P/TSX Capped REIT ETF</i>	<i>SDPR Gold Shares ETF</i>	<i>Centurion Apartment REIT Comparable Period</i>
Centurion Apartment REIT	1.00							
iShares S&P 500 ETF	0.12	1.00						
iShares Canadian Government Bond ETF	0.33	0.10	1.00					
iShares iBoxx High Yield Corporate Bond ETF	0.67	0.43	0.32	1.00				
iShares S&P/TSX 60 ETF	0.52	0.48	0.08	0.80	1.00			
iShares S&P/TSX Capped REIT ETF	0.59	0.09	0.58	0.60	0.53	1.00		
SDPR Gold Shares ETF	0.83	0.09	0.54	0.60	0.33	0.68	1.00	
Centurion Apartment REIT Comparable Period	0.34	-0.15	0.11	0.10	-0.22	0.02	0.13	1.00

### Centurion REOT – Monthly Return Correlation Matrix

September 2014 to August 2017

	<i>Centurion REOT</i>	<i>iShares S&amp;P 500 ETF</i>	<i>iShares Canadian Government Bond ETF</i>	<i>iShares iBoxx High Yield Corporate Bond ETF</i>	<i>iShares S&amp;P/TSX 60 ETF</i>	<i>iShares S&amp;P/TSX Capped REIT ETF</i>	<i>SDPR Gold Shares ETF</i>	<i>Centurion Apartment REIT Comparable Period</i>
Centurion Apartment REIT	1.00							
iShares S&P 500 ETF	0.06	1.00						
iShares Canadian Government Bond ETF	0.12	-0.10	1.00					
iShares iBoxx High Yield Corporate Bond ETF	0.12	0.63	0.12	1.00				
iShares S&P/TSX 60 ETF	0.11	0.65	0.05	0.70	1.00			
iShares S&P/TSX Capped REIT ETF	0.05	0.28	0.52	0.47	0.47	1.00		
SDPR Gold Shares ETF	-0.17	-0.19	0.46	0.36	0.04	0.40	1.00	
Centurion Apartment REIT Comparable Period	0.49	-0.03	0.13	-0.12	-0.03	0.08	-0.07	1.00