Ninepoint Global Real Estate Fund

August 2020 Commentary

Year-to-date to August 31, the Ninepoint Global Real Estate Fund generated a total return of 2.53% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of -15.18%. For the month, the Fund generated a total return of-0.69% while the Index generated a total return of -0.01%.

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

The explosive summer rally continued through the normally quiet month of August, led by the Information Technology, Consumer Discretionary and Communication sectors with the Utilities, Energy and Real Estate sectors bringing up the rear. Powering above the February highs, the S&P 500 recorded its best August performance in over 30 years and closed at 3,500 (just a few points the all-time closing high reached the prior trading day). With the US 10-year Treasury bond yield rising from 0.536% to 0.693% through the month, it is unsurprising that the interest rate-sensitive sectors lagged, although the move in rates barely registers on a long-term chart.

Despite a lack of progress on the next fiscal support package, investors have been willing to continue to pour money into the market leaders (including Tesla, Zoom and the big five mega-capitalization technology companies: AAPL, MSFT, AMZN, GOOG and FB) almost irrespective of valuation. But as the phased reopening continues, we believe that the rally will broaden to other economically sensitive sectors, with the inevitable approval of a safe, effective vaccine perhaps acting as the catalyst for a more lasting growth to value rotation.

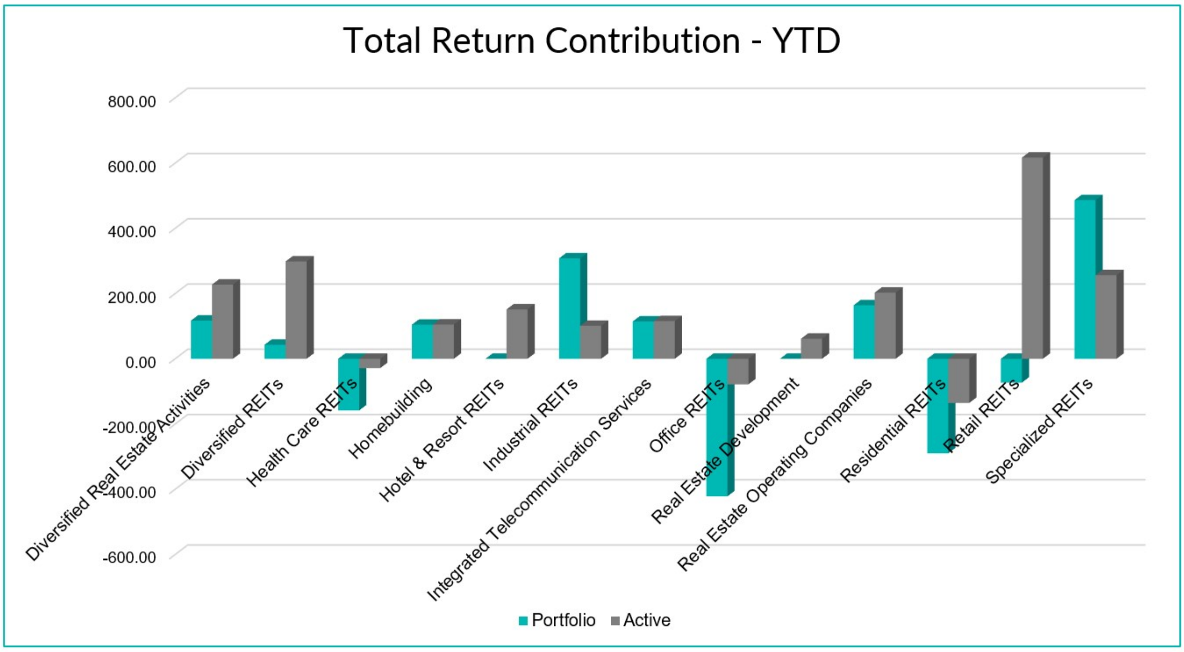
In the meantime, historic monetary and fiscal stimulus continues to result in directionally improving economic statistics, with the JPMorgan Global Composite PMI at 52.4 in August, a 17-month high. Similarly, the US Composite PMI came in at 54.6 (the strongest expansion of private sector output since March 2019), with the manufacturing PMI at 53.1 and the services PMI at 55.0 in August. The improvement in both the manufacturing and services components of the economy has led to a brighter jobs outlook and the US Bureau of Labor Statistics recently reported that total nonfarm payroll employment rose by 1.371 million jobs in August and the unemployment rate declined to 8.4%. Although millions are still unemployed (or under-employed), the recovery continues to outpace even the most optimistic scenarios at the depths of the COVID-19 outbreak.

The importance of liquidity to the equity rally should not be underestimated and the US Federal Reserve has now clearly signaled “average inflation targeting”, which was widely expected. Since the Fed plans to allow inflation to run above its previous ceiling of 2.0% and won’t react to low unemployment levels, we expect interest rate hikes to be on hold for years. From our perspective, this has two key implications: dividend-paying equities haven’t been this attractive relative to bonds in over twenty years and rising inflation expectations should provide a tailwind for real asset strategies (such as infrastructure and real estate).

Therefore, from an asset allocation standpoint, we continue to believe that there is no better investment alternative than a diversified portfolio of dividend paying stocks (including global equities and publicly listed real estate and infrastructure securities). Any near-term weakness in equities stemming from disappointment related to a Phase IV stimulus package, concerns regarding the rising number of new COVID-19 cases around the world or uncertainly surrounding the upcoming US Presidential election should be viewed as an opportunity to rebalance portfolios and position for a return to positive GDP growth.

Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included Specialized REITs (+486 bps), Industrial REITs (+308 bps) and Real Estate Operating Companies (+164 bps) while top detractors by sub-industry included Office REITs (-422 bps), Residential REITs (-290 bps) and Health Care REITs (-158 bps) on an absolute basis.

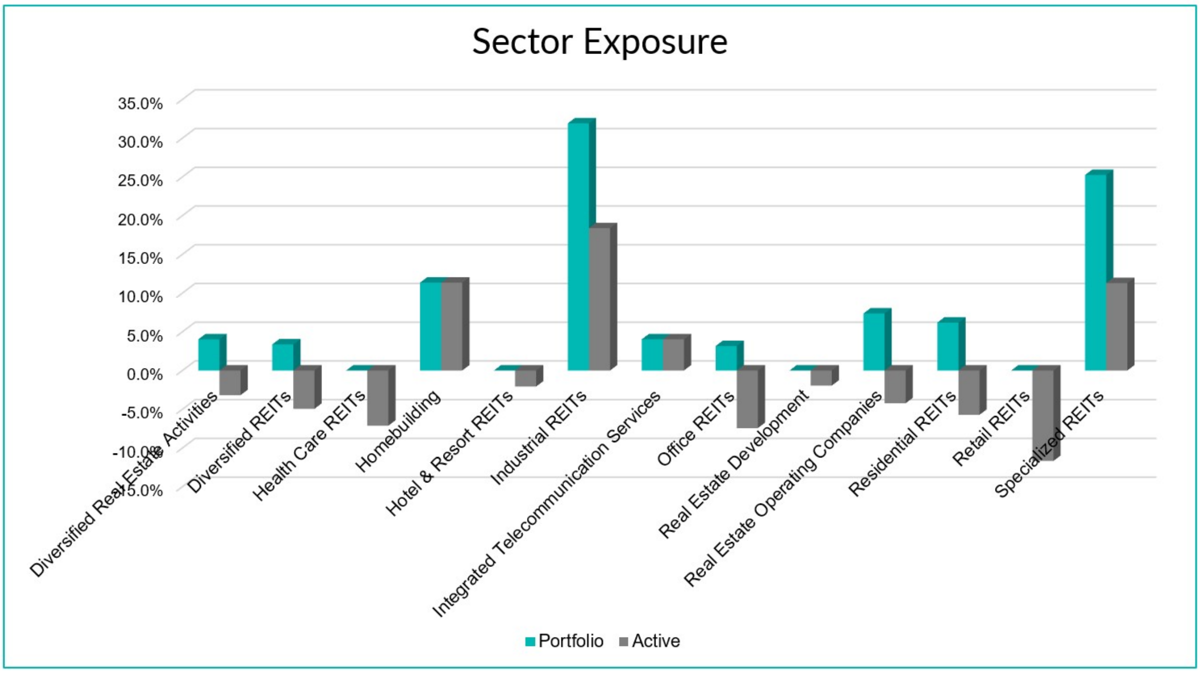
On a relative basis, positive return contributions from the Retail REITs, Diversified REITs and Specialized REITs sub-industries were offset by negative contributions from the Residential REITs, Office REITs and Health Care REITs sub-industries.



Source: Ninepoint Partners

We are currently overweight Industrial REITs, Homebuilding and Specialized REITs while underweight Retail REITs, Office REITs and Health Care REITs. At month end, we held a 3% cash position but have invested the bulk of our cash position in the sub-industries that should benefit the most from work-from-home and consume-at-home trends.

We also have significant exposure to Homebuilding, since new home construction in the United States remains extremely strong, with July sales up 13.9% sequentially from June and up 36.3% on a year-over-year basis, as suburbanization gains momentum.



Source: Ninepoint Partners

At the individual security level, top contributors to the year-to-date performance included Equinix (+130 bps), Tricon (+117 bps) and Goodman Group (+107 bps). Top detractors year-to-date included Dream Office (-113 bps), Kilroy Realty (-102 bps) and Invitation Homes (-85 bps).

In August, our top performing investments included Tricon (+51 bps), Innovative Industrial Properties (+48 bps) and Goodman Group (+32 bps) while QTS Realty (-30 bps), American Tower (-28 bps) and Alexandria (-26 bps) underperformed.

The Ninepoint Global Real Estate Fund was concentrated in 28 positions as at August 31, 2020 with the top 10 holdings accounting for approximately 39.6% of the fund. Over the prior fiscal year, 20 out of our 28 holdings have announced a dividend increase, with an average hike of 9.3% (median hike of 5.0%). Using a total real estate approach, we will continue to apply a disciplined investment process, balancing valuation, growth and yield in an effort to generate solid risk-adjusted returns.

Jeffrey Sayer, CFA
Ninepoint Partners

NINEPOINT GLOBAL REAL ESTATE FUND - COMPOUNDED RETURNS[1]
AS OF AUGUST 31, 2020 (SERIES F NPP132)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	-0.7%	2.5%	6.4%	1.4%	3.0%	8.5%	9.9%	9.1%
Index	0.0%	-15.2%	2.0%	-11.5%	-13.7%	1.3%	3.2%	2.2%

[1]All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at August 31, 2020; e) 2015 annual returns are from 08/04/15 to 12/31/15. The index is 100% MSCI World IMI Core Real Estate NR (CAD) and is computed by Ninepoint Partners LP based on publicly available index information

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