Ninepoint Global Real Estate Fund

December 2019 Commentary

Year-to-date to December 31, the Ninepoint Global Real Estate Fund generated a total return of 19.48% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of 16.29%. For the month, the Fund generated a total return of -3.05% while the Index generated a total return of -1.72%.

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

After a difficult year in 2018, almost every major asset class rebounded strongly in 2019. Stocks rallied (both domestic and international), bonds rallied (both governments and corporates), real assets rallied (both real estate and infrastructure) and commodities rallied (both gold and oil). The broad-based strength in 2019 was directly related to the level of outright fear that gripped investors at the end of 2018, which pushed valuations to deeply depressed levels and created the oversold conditions necessary for a powerful recovery across the board.

Thankfully, fears related to a US Fed-induced recession, a worst-case scenario for US-China trade relations and a "hard-BREXIT" proved to be unfounded in 2019. In fact, the Fed abruptly pivoted early in the year, eventually cutting rates three times for a total of 75 basis points. The Fed also began buying short-term Treasuries in October at an initial pace of $60 billion per month thus injecting liquidity into the financial system. Further, US and China trade representatives managed to hammer out a "phase-one" trade deal (although an official document has yet to be signed as of writing). Essentially, the US agreed to roll-back previously implemented tariffs and postponed threatened tariffs on approximately $160 billion worth of Chinese-made consumer goods in exchange for purchases of American goods (primarily agricultural products) and some concessions regarding the protection of intellectual property rights. Finally, after winning a Conservative majority in the UK general election, Boris Johnson should now be able to deliver on the promise of a negotiated BREXIT without having to resort to crashing out of the European Union. Perhaps we did not get perfect outcomes but, taken together, the developments were certainly good enough to trigger an exceptional relief rally across asset classes.

We believe that the global economy can continue to work through what should turn out to be a mid-cycle correction. Central banks around the world have done their part by easing monetary conditions and some economic data points have shown early signs of stabilization and even recovery. Importantly, the JPMorgan Global Composite PMI has shown an improving trend since bottoming at 50.8 last October to reach 51.7 in December. Consistent with this trend, the IMF is calling for world economic growth to reaccelerate to 3.4% in 2020, after dipping to 3.0% in 2019 from 3.6% in 2018. Interest rates also appear to confirm the nascent recovery, with the rebound of the US 10-year bond yield (from a low of 1.43% in early September to just over 1.80% recently) and the steepening of the 2-year/10-year yield curve (from -4 bps in late-August to +35 bps by the end of December).

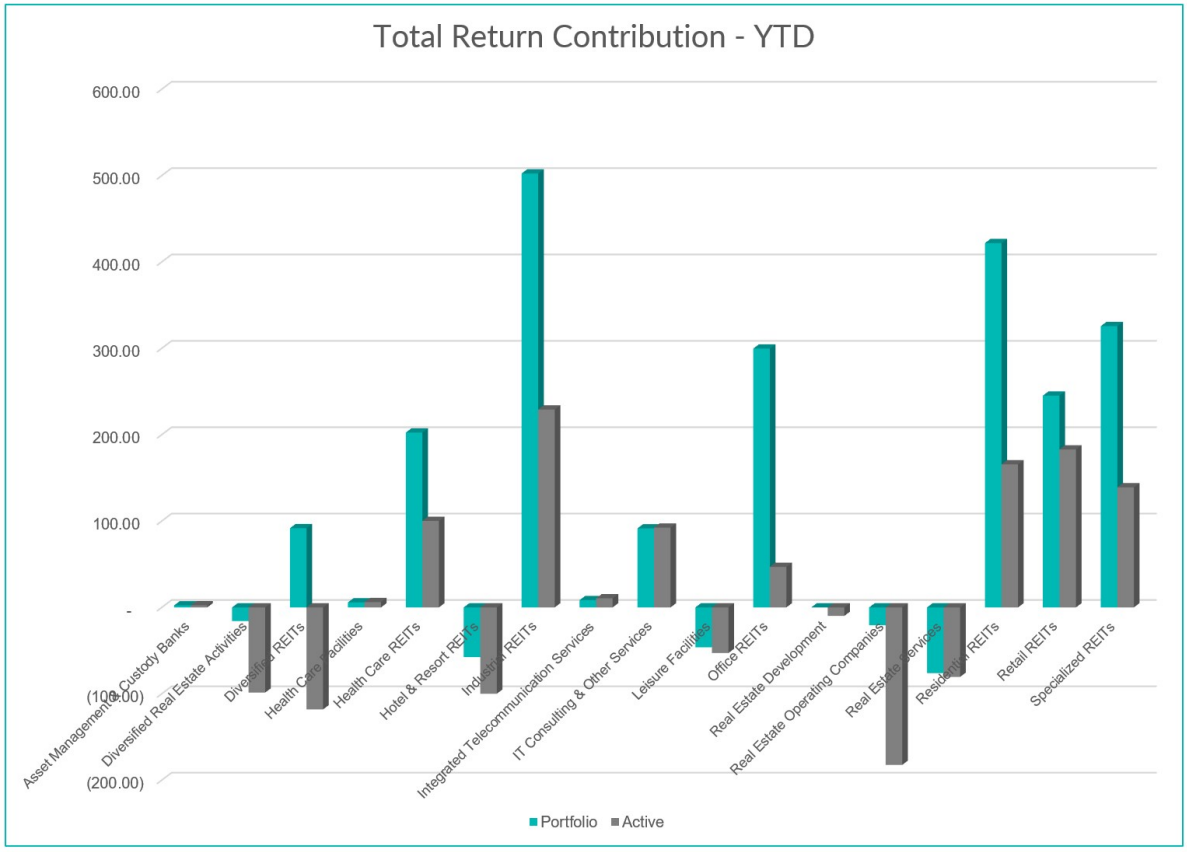
Although we acknowledge that many risks remain (geopolitical turmoil and the upcoming US

Presidential election quickly come to mind), today's environment looks relatively benign for investors, with some even calling for a "goldilocks" economy (characterized by low interest rates, low inflation and moderate growth). Currently, our biggest concern is valuation (making the market susceptible to a correction at any time) and we would point out that almost all the 2019 rally was driven by P/E multiple expansion as opposed to earnings growth, which remained relatively flat for the year.

Looking at the S&P 500 specifically, from a depressed 14x forward earnings estimates, the market rallied to more than 18x forward earnings estimates by the end of 2019, the upper end of historic valuation ranges. To realize material gains from here, we will need to see some combination of revenue growth, margin expansion and earnings growth in 2020. Thankfully, we continue to believe that if Trump's goal is to be re-elected next November, he will do everything in his power to protect the domestic economy, create jobs and bolster consumer confidence. If this scenario plays out, we would expect markets to grind higher through the balance of 2020.

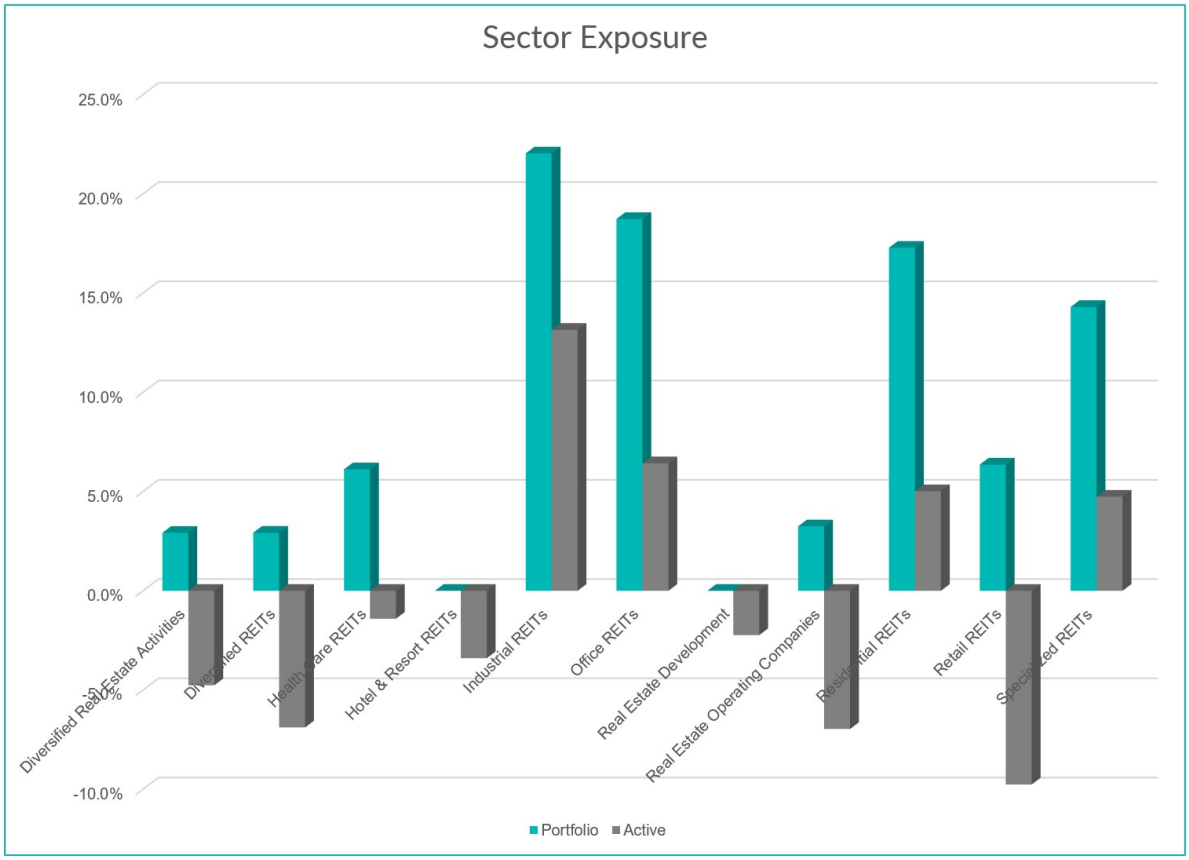
Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included Industrial REITs (+502 bps), Residential REITs (+422 bps), Specialized REITs (+326 bps), Office REITs (+300 bps) and Retail REITs (+238 bps) while top detractors by sub-industry included Real Estate Services (-76 bps), Hotel & Resort REITs (-58 bps), Leisure Facilities (-46 bps), Real Estate Operating Companies (-14 bps) and Diversified Real Estate Activities (-16 bps) on an absolute basis.

On a relative basis, positive return contributions from the Industrial REITs, Retail REITs, Residential REITs, Specialized REITs and Health Care REITs sub-industries more than offset negative contributions from the Real Estate Operating Companies, Diversified REITs, Hotel & Resort REITs, Diversified Real Estate Activities and Real Estate Services sub-industries.



Source: Ninepoint Partners

We are currently overweight Industrial REITs, Office REITs, Residential REITs and Specialized REITs while underweight Retail REITs, Real Estate Operating Companies, Diversified REITs, Diversified Real Estate Activities and Hotel & Resort REITs. After taking profits in the Specialized REITs sub-industry earlier in the quarter (via selling data centers and cellular tower REITs), we rebuilt some positions through December at more attractive valuation levels.



Source: Ninepoint Partners

At the individual security level, top contributors to the year-to-date performance included Equinix (+179 bps), Prologis (+154 bps) and American Tower (+108 bps). Top detractors year-to-date included Digital Realty (-61 bps), Colliers International (-59 bps) and Braemar Hotel & Resorts (-58 bps).

In December our top performing investments included CT REIT (+19 bps), Hudson Pacific Properties (+10 bps) and VICI Properties (+7 bps) while Community Healthcare (-39 bps), Store Capital (-31 bps) and Americold Realty (-29 bps) underperformed.

It turned out to be a very good year for REIT investors, as the asset class rebounded strongly from the late-2018 selloff. But much like the broad equity markets, sector and sub-industry allocation decisions played a key role in generating performance. Investors focused on above-average FFO and NAVPU growth and generally ignored deep-value opportunities in the REIT space. Industrial REITs, Residential REITs, Diversified REITs, Specialized REITs and Office REITs were clear leaders and, thankfully, our investment process identified many of these opportunities early.

As global economic growth continues to improve and investors broadly shift from growth to value, some of these winners may come under some pressure due to elevated valuation levels. The rotation would also likely result in higher US 10-year bond yields, but any significant upside is likely capped by positive funds flow into US Treasuries given extremely low or even negative interest rates around

the world. We believe that any correction in the high-quality and high-growth REITs in the near-term would be the fantastic buying opportunity and could lead to outsized returns over the balance of the year.

The Ninepoint Global Real Estate Fund was concentrated in 29 positions as at December 31, 2019 with the top 10 holdings accounting for approximately 35.8% of the fund. Over the prior fiscal year, 23 out of our 29 holdings have announced a dividend increase, with an average hike of 9.3%. 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 DECEMBER 31, 2023 (SERIES F NPP132) | INCEPTION DATE: AUGUST 5, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	5.5%	3.5%	9.6%	2.4%	3.5%	2.5%	5.3%	6.1%
MSCI World IMI Core Real Estate NR (CAD)	6.6%	7.9%	12.7%	9.0%	7.9%	2.6%	2.6%	3.0%

Effective February 7, 2017 the Sprott Global REIT & Property Equity Fund's name was changed to Sprott Global Real Estate Fund, subsequently on August 1, 2017 becoming Ninepoint Global Real Estate Fund.

[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 December 31, 2019; 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.

The Fund is generally exposed to the following risks. See the Simplified Prospectus of the Fund for a description of these risks: capital depletion risk, concentration risk, credit risk, currency risk, cybersecurity risk; derivatives risk, emerging markets risk, equity real estate investment trust (REIT) risk, exchange traded funds risk, foreign investment risk, income trust risk, inflation risk, interest rate risk, liquidity risk, market risk, preferred stock risk; real estate risk; regulatory risk; securities lending, repurchase and reverse purchase transaction ris; series risk; short selling risk; specific issuer risk; substantial securityholfer risk; tax risk.

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