Ninepoint Global Real Estate Fund

December 2020 Commentary

Investment Team

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Year-to-date to December 31, the Ninepoint Global Real Estate Fund generated a total return of 0.63% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of -9.59%. For the month, the Fund generated a total return of 1.72% while the Index generated a total return of 1.87%.

The year 2020 will go down in history as one of the most challenging periods in recent memory for people around the world. What started as a localized outbreak, quickly turned into a global pandemic as the Covid-19 coronavirus spread across the planet. Governments, healthcare professionals and front-line workers were called upon to take a “whatever-it-takes” mentality to combat the crisis. Despite their extraordinary and heroic efforts, approximately 2 million lives have been lost and almost everyone has faced varying degrees of hardship tied to mandated mobility restrictions and forced economic shutdowns. But as we begin 2021, human ingenuity, tireless effort and scientific breakthroughs thankfully offer hope for the future.

Looking back at the economic impact of the lockdown, we have just experienced the sharpest, deepest recession since WWII, with the dynamics of the contraction more like a natural disaster-induced full-stop than a monetary policy-induced slowdown. This triggered the fastest bear market in history, with the S&P 500 falling 35% from February 19 to March 23. However, markets rebounded ferociously from the lows due to the relatively swift and coordinated policy response, which included emergency monetary support and aggressive fiscal stimulus. But it is important to note that investment returns varied widely across markets, sectors and asset classes with work-from-home and consume-at-home themes particularly supportive for the Information Technology sector as digital transformation accelerated.

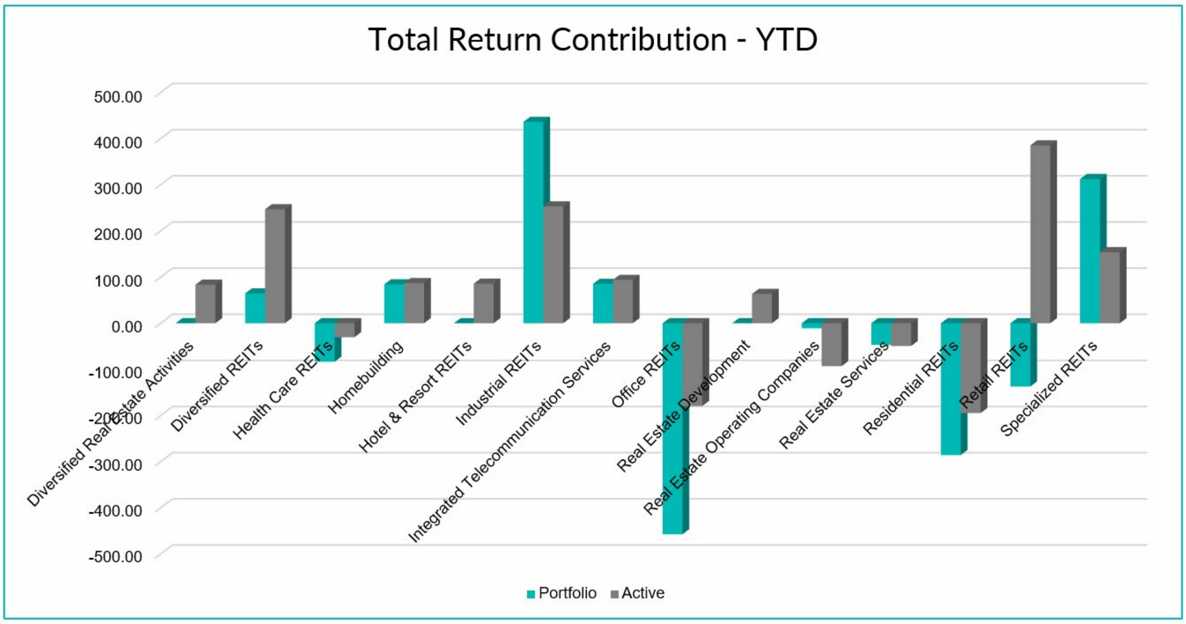
Unsurprisingly, the tech-heavy NASDAQ composite led the charge in 2020 with a total return of 44.9% and the broader S&P 500 generated a total return of 18.4% (both in USD). Returns were slightly less impressive across our mandated benchmarks, as the S&P Global 1200 (CAD) generated a total return of 13.6%, the MSCI World Core Infrastructure (CAD) generated a total return of -2.5% and the MSCI World Core IMI Real Estate (CAD) generated a total return of -9.6%. Clearly, global markets faced tougher headwinds from a performance perspective and certain sectors and sub-industries dependent on unrestricted mobility suffered disproportionately (including toll roads and airports in infrastructure and retail REITs and office REITS in real estate). Finally, we should note that although USD exposure provided a buffer during the downturn in Q1 2020, USD weakness through the remainder of the year negatively impacted returns in CAD terms.

Looking forward into 2021, the outlook for the broad equity markets appears quite good, since three key positive catalysts have materialized. First, Congress has officially certified Joe Biden’s victory in the US Presidential election and the Democrats have held the House and flipped the Senate. The Democratic sweep creates a “Blue Wave” scenario and removes a tremendous amount of political uncertainty. Second, the next phase of the fiscal stimulus package has been signed into law, in the amount of approximately $900 billion. Given the unified government, there is also a high probability that additional stimulus legislation will top up support payments from $600 to $2,000 per person per month for those under a certain income level. With almost 10 million people still unemployed relative to pre-pandemic levels, these cheques are critically important to bridging the income gap until we can get everyone back to work. The third catalyst, the discovery and distribution of a safe, effective vaccine against Covid-19 (with the recent approval of both Pfizer-BioNTech and Moderna vaccines and the likely approval of both AstraZeneca and Johnson & Johnson vaccine candidates), will eventually achieve the herd immunity required to allow our lives to return to normal. With these catalysts incorporated into current consensus estimates, earnings are expected to grow approximately 25% on a year-over-year basis and, if interest rates remain low therefore allowing multiples to remain elevated, we could see another solid year of investment gains.

The Ninepoint Global Real Estate Fund should be well positioned for 2021, as the asset class stands to benefit from several key drivers. Importantly, we expect that the sub-industries that outperformed in 2020 will continue to work as investments in the coming year. Industrial REITs, specifically warehouse, distribution and logistics assets, should continue to benefit from rising demand tied to ecommerce. Specialized REITs, including data centers and cellular towers, should continue to benefit from demand for digital content and communication delivered via 5G networks. But we also expect broader participation as the reopening trade plays out and certain sub-industries such as Retail REITs, Office REITs and even Residential REITs should rebound from depressed levels. The cash flows of these sub-industries should stabilize faster than many expect and the discount to net asset value that we see today should narrow significantly. Essentially, there should be plenty of opportunity to find high quality dividend growers at attractive valuations across a wide range of businesses in the real estate space, which bodes well for our mandate.

Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included Industrial REITs (+436 bps), Specialized REITs (+312 bps) and Integrated Telecommunication Services (+85 bps) while top detractors by sub-industry included Office REITs (-457 bps), Residential REITs (-286 bps) and Retail REITs (-137 bps) on an absolute basis.

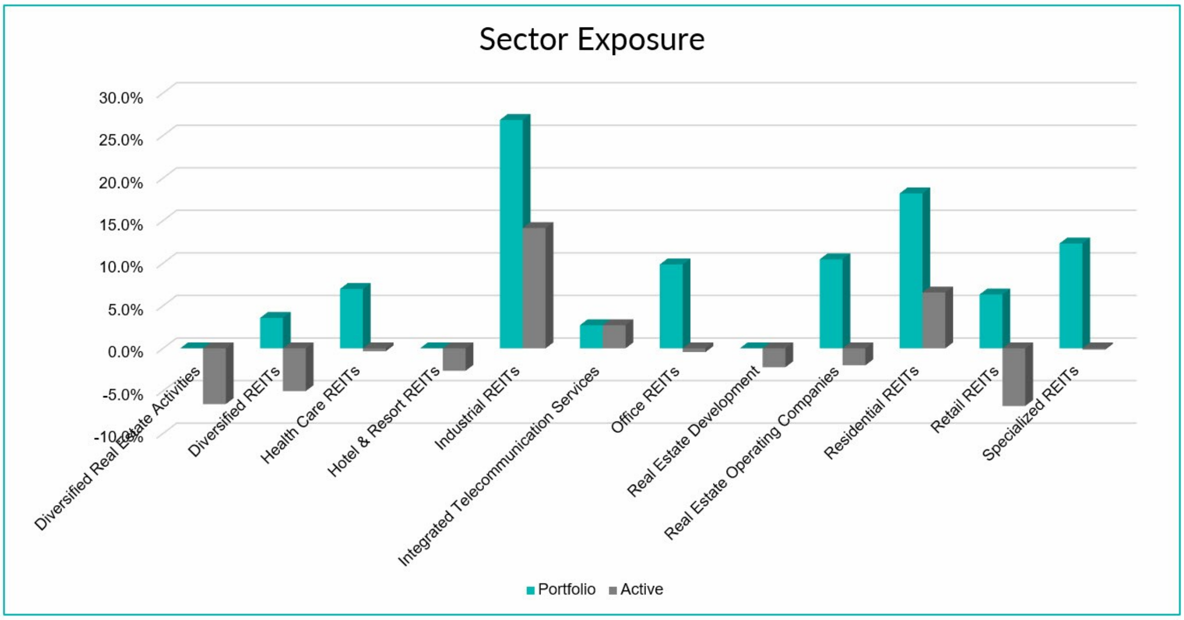
On a relative basis, positive return contributions from the Retail REITs, Industrial REITs and Diversified REITs sub-industries were offset by negative contributions from the Residential REITs, Office REITs and Real Estate Operating Companies sub-industries.



Source: Ninepoint Partners

We are currently overweight in the Industrial REITs, Residential REITs and Integrated Telecommunication Services while underweight in the Retail REITs, Diversified Real Estate Activities and Diversified REITs. Given our expectations for the rally to broaden through 2021 as the world reopens, we have reduced some of our outsized (either overweight or underweight) sector allocations.

If the world can reopen smoothly, we may finally see both growth/momentum REITs and value/cyclical REITs rallying together. Therefore, we have positioned our holdings using a barbell-strategy in anticipation of global economic normalization. Crushed at the beginning of the global pandemic for obvious reasons, certain sub-industries in the Real Estate sector have tremendous leverage to the reopening trade, given the currently depressed valuations despite the potential for cash flows to rebound dramatically.



Source: Ninepoint Partners

At the individual security level, top contributors to the year-to-date performance included Innovative Industrial Properties (+245 bps), Tricon (+137 bps) and Goodman Group (+123 bps). Top detractors year-to-date included Dream Office (-129 bps), Hudson Pacific Properties (-108 bps) and Kilroy Realty (-102 bps).

In December, our top performing investments included Innovative Industrial Properties (+81 bps), Weyerhaeuser (+41 bps) and CareTrust (+36 bps) while Hudson Pacific Properties (-35 bps) and RioCan (-25 bps) and Crown Castle (-25 bps) underperformed.

The Ninepoint Global Real Estate Fund was concentrated in 30 positions as at December 31, 2020 with the top 10 holdings accounting for approximately 37.1% of the fund. Over the prior fiscal year, 20 out of our 30 holdings have announced a dividend increase, with an average hike of 8.5% (median hike of 5.4%). 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, 2020 (SERIES F NPP132)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	1.7%	0.6%	-1.1%	5.2%	0.6%	5.1%	6.7%	8.2%
Index	1.9%	-9.6%	7.4%	8.0%	-9.6%	2.4%	2.5%	3.3%

[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, 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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