# Sprott Global Real Estate Fund

## February 2018 Commentary

### Investment Team

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Vice President, Portfolio Manager

Year-to-date to February 28, the Sprott Global Real Estate Fund generated a total return of -3.21% compared to the FTSE EPRA/NAREIT Index, which generated a total return of -4.77%.

Returns in the month of February were disappointing on both a relative and absolute basis, with the Fund generating a total return of -3.23% while the benchmark generated a total return of -2.58%. After a fantastic start to the year, the inevitable and normal 2% to 4% market correction quickly accelerated into something more dramatic. From its high on January 26th of 2,872, the S&P 500 declined to an intraday low of 2,532 on February 9th, a drop of approximately 11.8% in just 10 days.

The selling was likely triggered by a rally in the US 10-year yield to a five-year high, driven by fears of rising inflation and accelerated FED tightening. As market volatility spiked, systematic strategies were forced to rebalance their portfolios by selling equities irrespective of valuation or fundamentals, which led to the much larger than anticipated market drawdown. Threats of tariffs on steel and aluminum and talk of an ensuing trade war did nothing to help sentiment. However, the outlook for economic growth and corporate earnings has changed very little during the month and the markets have since recouped some of the losses. From our perspective, the correction has provided an opportunity to high-grade our portfolios and add exposure to sectors and stocks that benefit most in a mid to late-cycle environment.

Our modelling continues to indicate that the Canadian dollar should weaken in 2018. Although the Canadian dollar strengthened through January on accelerating global growth expectations, the currency did indeed weaken in February. But with at least some of the recent move related to the threat of a global trade war, which may turn out to be less severe for Canada than initially feared, we have hedged approximately half of our USD exposure in order to reduce currency-related volatility in the Fund.

Top contributors to the year-to-date performance of the Sprott Global Real Estate Fund included Pure Industrial REIT (+56 bps), Merlin Properties (+19 bps) and Cellnex (+13 bps). Top detractors year-to-date included Equinix Inc. (-90 bps), Immobiliare Grande Distribuzione (-53 bps), and Cyrusone (-40 bps). Rate sensitive securities were hit particularly hard in February on the spike in the US 10-year yield.

We recently added shares of Colliers International Group (CIGI CN), the commercial real estate services company, as we looked to reduce interest rate sensitivity in the Fund. With an asset light business model, 35% of revenue tied to recurring outsourcing and advisory services and a credible plan to double the size of the company over a five year span through 2020, Colliers should perform well through 2018.

The Sprott Global Real Estate Fund was concentrated in 28 positions as at February 28, 2018 with the top 10 holdings accounting for approximately 43.8% of the fund.  Over the past year, 18 out of our 28 holdings have announced a dividend increase, with an average hike of 22.1%.  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**

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 February 28, 2018; 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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