Ninepoint Global Real Estate Fund

July 2019 Commentary

Investment Team

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Year-to-date to July 31, the Ninepoint Global Real Estate Fund generated a total return of 11.31% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of 10.61%. For the month, the Fund generated a total return of 2.19% while the Index generated a total return of .89%. After a solid recovery rally to start the year, markets faltered in May as US-China trade negotiations broke down. However, sentiment improved dramatically through June and July with what appeared to be a truce in the trade war, reasonable second quarter results and dovish reassurances from global Central Banks.

Unfortunately, investors may have gotten ahead of themselves in terms of monetary stimulus expectations and a dovish ECB meeting on July 25 (but without concrete action) and a 25-bps interest rate cut from the US Fed on July 31 (instead of either a 50-bps interest rate cut or 25-bps interest rate cut and clarity on incremental easing) disappointed the market. But keep in mind that the ECB will likely act more aggressively at its next policy meeting and the US Fed funds futures are currently indicating a 100% chance of an interest rate cut on September 18, providing further accommodation and ensuring an extended economic cycle.

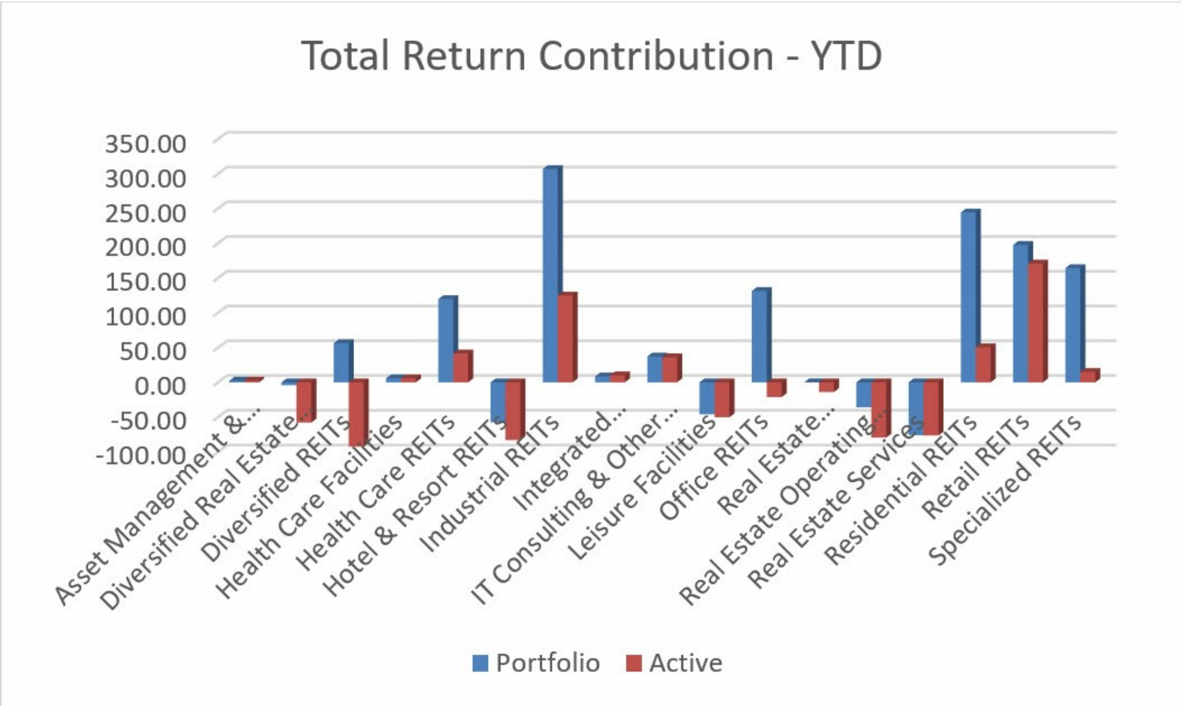
On a positive note, with 90% of the companies in the S&P 500 reporting actual results, 75% of companies have reported a positive earnings surprise and 57% have reported a positive revenue surprise, according to FactSet. On a blended basis (combines actual results for companies that have reported and estimated results for companies that have yet to report), the earnings growth rate is coming in at -0.7% and the revenue growth rate is coming in at 4.1%, but both measures have been improving through the earnings season. Importantly, companies with greater US domestic exposure have reported much better revenue and earnings growth rates than those with greater international sales.

We remain concerned that the global PMIs have yet to rebound, with the JPMorgan Global Manufacturing PMI particularly weak in July at 49.3, its lowest level since October 2012. Consistent with global growth concerns, the US 10-year Treasury yield has fallen below 2.0% and the US 2-year to 10-year yield curve, again a widely-watched recession indicator, remains flat (but not yet inverted). Accommodative monetary policy, easing trade tensions and the passage of time will be required to return to more robust economic growth, hence the market's fixation on US Fed Chairman Powell's every word and President Trump's every tweet.

We continue to believe that the current environment will prove to be a mid-cycle slowdown and we will avoid a global recession. If we follow the roadmap of past cycles, interest rates should decline, global PMIs should bottom and earnings expectations for 2020 should inflect higher in turn. Forward earnings growth coupled with multiple expansion should allow the broad equity markets to rally until monetary conditions need to be tightened to offset inflationary pressure. We believe that the cycle could have many years left to run given the subdued nature of the recovery.

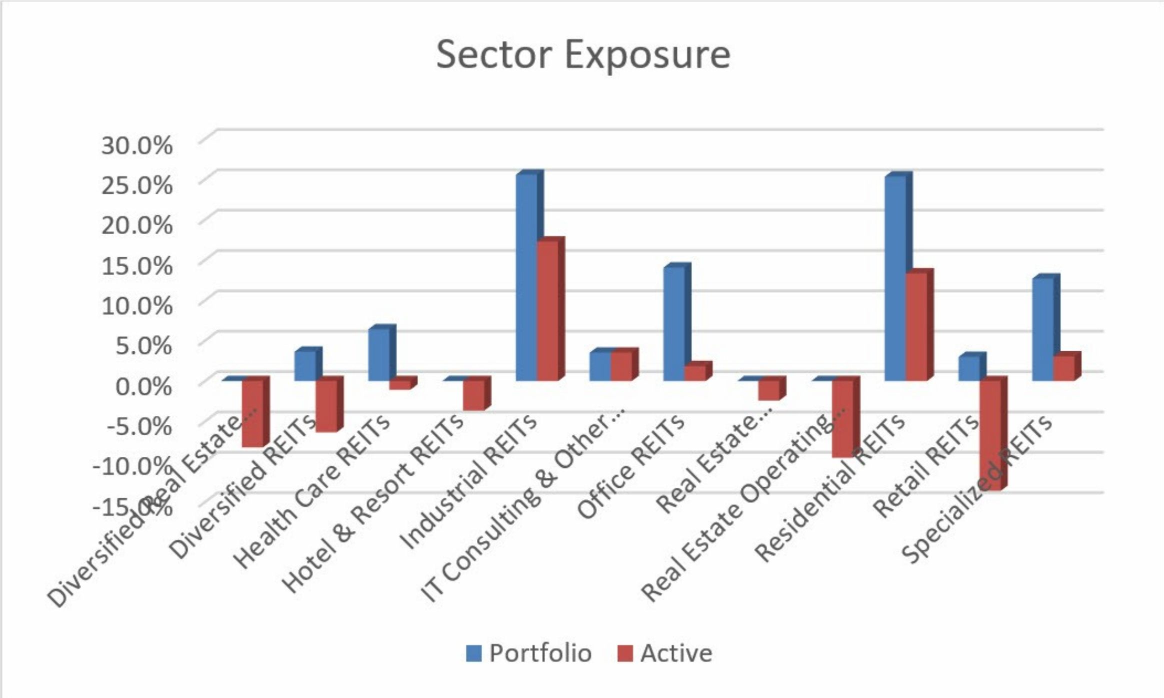
Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included Industrial REITs (+307 bps), Residential REITs (+244 bps) and Retail REITs (+198 bps) while top detractors by sub-industry included Real Estate Services (-76 bps), Hotel & Resort REITs (-58 bps) and Leisure Facilities (-46 bps) on an absolute basis. On a relative basis, positive return contributions from the Retail REITs, Industrial REITs, Residential REITS, Health Care REITs, IT Consulting & Other Services and Specialized REITs sub-industries couldn't quite offset negative contributions from the Diversified REITS, Hotel & Resort REITs, Real Estate Operating Companies, Real Estate Services, Diversified Real Estate Activities, Leisure Facilities and Office REITs sub-industries.

After a mildly disappointing first six months of the year, with almost all the underperformance occurring over a two-day period during the final week of June, we are pleased to have regained some ground relative to our benchmark in July. As expected, the portfolio rebounded quickly, since we were unable to identify any underlying cause of the underperformance other than aggressive portfolio repositioning, likely by generalist managers. With interest rates expected to remain favourable (the US 10-year bond yield has again dipped below 2.0%), Real Estate will likely continue to be one of the top performing sectors in the market over the balance of the year.



Source: Ninepoint Partners

We are currently overweight Industrial REITs, Residential REITs, IT Consulting & Other Services, Specialized REITs and Office REITs while underweight Retail REITs, Real Estate Operating Companies, Diversified Real Estate Activities, Diversified REITs and Hotel & Resort REITs. This positioning is consistent with strong demand for real estate tied to technology-driven businesses involved in ecommerce (distribution and logistics warehouses), communication (cell phone towers) and cloud services (data centers). Further, solid fundamentals for multi-family and single-family housing are reflected in our overweight positioning in the Residential REITs sub-industry.



Source: Ninepoint Partners

At the individual security level, top contributors to the year-to-date performance included Equinix (+121 bps), Prologis (+117 bps) and American Tower (+103 bps). Top detractors year-to-date included CyrusOne (-62 bps), Digital Realty (-61 bps) and Colliers International (-59 bps).

In July, our top performing investments included Kilroy (+25 bps), Hudson Pacific Properties (+25 bps) and InterRent (+21 bps) while Digital Realty Trust (-13 bps), Tritax Big Box (-10 bps) and WPT Industrial (-2 bps) underperformed.

Hudson Pacific Properties (HPP), the West Coast office and studio properties REIT, reported inline operating and financial results on July 31, 2019. Highlights included a slight increase in FFO to $0.48 per diluted share from $0.46 reported in the comparable period a year ago. Further, management signed over 500,000 square feet of leases and achieved 27% cash rent growth as stabilized occupancy increased to 96.6%, which is a testament to solid demand for Class A office, sound stages and production facilities in the Company's markets. Management also added 1.0 million square feet to the REIT's future development pipeline (half in downtown Vancouver and half in downtown Seattle) and increased guidance for same-store cash NOI growth to 4.5% for office and 5.5% for studio properties, at the respective mid-points.

Despite the solid results, HPP has underperformed in August on rising global macro concerns, given the higher-growth, less defensive nature of the REIT. We are still positive on the story based on the REIT's valuation relative to its expected growth (HPP is now trading at a discount to the overall sector at 0.8x expected NAV and 15.3x forward FFO, which is expected to grow approximately 9.5%) but we may look to trim, sell or swap the position should our investment process dictate an adjustment.

The Ninepoint Global Real Estate Fund was concentrated in 29 positions as at July 31, 2019 with the top 10 holdings accounting for approximately 35.4% of the fund. Over the prior fiscal year, 22 out of our 29 holdings have announced a dividend increase, with an average hike of 6.4%. 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 GLOBAL REAL ESTATE FUND - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	INCEPTION
Fund	5.0%	5.0%	2.3%	12.7%	18.1%	12.1%	11.0%

[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 July 31, 2019; e) 2015 annual returns are from 08/04/15 to 12/31/15.

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, real estate risk, regulatory risk, series risk, short selling risk, specific issuer risk, tax risk.

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