Ninepoint Global Real Estate Fund

March 2018 Commentary

Investment Team

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Vice President, Portfolio Manager

Year-to-date to March 31, the Ninepoint Global Real Estate Fund generated a total return of -1.47% compared to the FTSE EPRA/NAREIT Index, which generated a total return of -2.05%.

Returns in the month of March were good on an absolute basis but disappointing on a relative basis, with the Fund generating a total return of 1.80% while the benchmark generated a total return of 2.88%. Unlike the correction in February, characterized by a spike in the US 10-year bond yield, broad equity market weakness in March led to a decline in the 10-year yield, which proved to be supportive for the real estate sector and triggered a bounce in some of the more rate-sensitive REITs.

Our modelling indicates that the Canadian dollar should continue to weaken in 2018. Although the Canadian dollar strengthened throughout January on accelerating global growth expectations, the currency began to decline in February and the trend persisted through the middle of March. With a resolution to the ongoing NAFTA negotiations expected shortly, we have hedged approximately half of our USD exposure in order to reduce currency-related volatility in the Fund.

Following months of investigation and threats, the Trump administration recently announced its intention to place tariffs on approximately $50 billion worth of Chinese goods, heightening the risk of a global trade war. Despite the concerning headlines, we believe that negotiations will prevail before any significant damage can be done to the outlook for global growth and corporate profits. From our perspective, the correction has provided an opportunity to high-grade our portfolios and add exposure to real estate-related sectors and stocks that benefit most in a mid to late-cycle environment.

Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund included Pure Industrial REIT (+57 bps), Merlin Properties (+37 bps) and Interxion (+37 bps). Top detractors year-to-date included Immobiliare Grande Distribuzione (-61 bps), GGP (-35 bps) and Cyrusone (-33 bps).

Brookfield Properties and GGP (GGP US) have reached an agreement with the announcement of a "sweetened" takeover offer on March 26, 2018. GGP shareholders can elect to receive either $23.50 in cash, or either one BPY unit or one share of a newly created US REIT that will track the performance of BPY. The cash component is subject to proration, based on an aggregate cash consideration of $9.25 billion and an aggregate cash/equity ratio of approximately 61%/39%. But, to put it bluntly, we agree with the market's disappointment with the takeover agreement. It fails to account for the 18% slide in BPY's units from the date of initial reports of a transaction through to the end of March. Without a material rally in BPY, we believe that the current offer undervalues GGP based on our NAV calculations.

The Ninepoint Global Real Estate Fund was concentrated in 31 positions as at March 31, 2018 with the top 10 holdings accounting for approximately 40.9% of the fund. Over the past year, 21 out of our 31 holdings have announced a dividend increase, with an average hike of 23.7%. 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

[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 March 30, 2018; e) 2015 annual returns are from 08/04/15 to 12/31/15.

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