Ninepoint Global Real Estate Fund

May 2019 Commentary

Investment Team

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Vice President, Portfolio Manager

Year-to-date to May 31, the Ninepoint Global Real Estate Fund generated a total return of 12.09% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of 11.61%. For the month, the Fund generated a total return of -0.24% while the Index generated a total return of 0.51%. After a solid recovery rally to start the year, markets faltered in May as US-China trade negotiations broke down, heated rhetoric escalated into a new round of tariffs and risk appetite deteriorated.

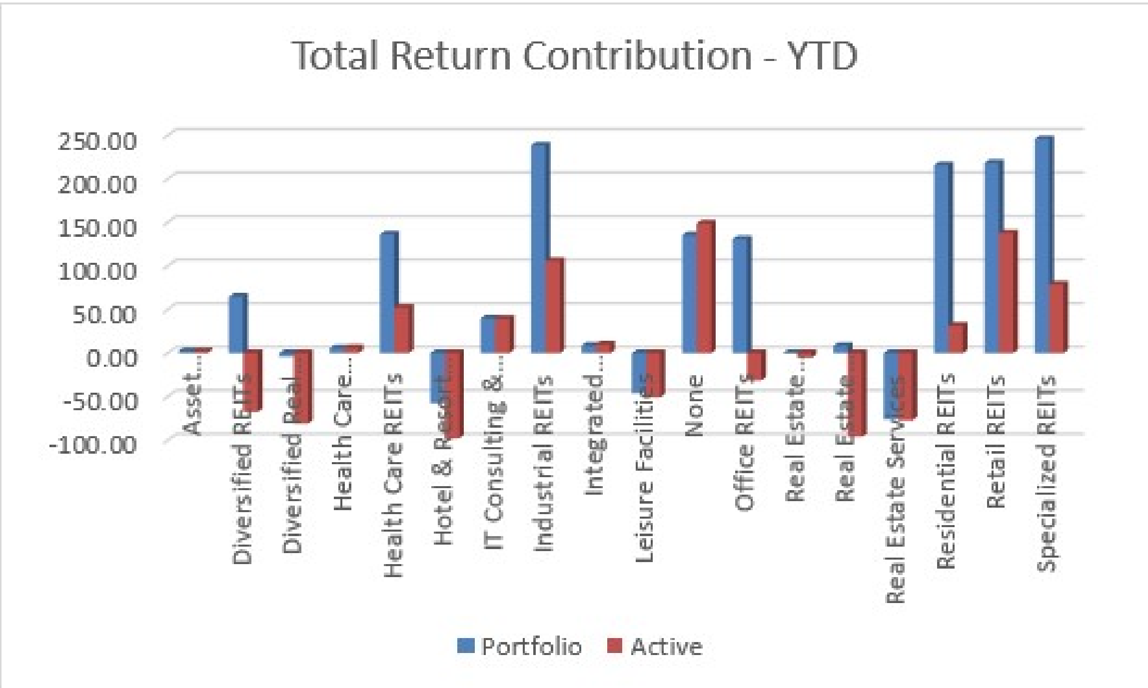
Sometime over the course of the first weekend of May, just when it appeared that the US and China were close to resolving their trade dispute, negotiations took a turn for the worse. Impetuously, President Trump tweeted his intention to maintain tariffs at 25% on the original basket of $50 billion worth of goods, boost tariffs from 10% to 25% on the second basket of $200 billion worth of goods and threatened incremental tariffs of 25% on a third basket of approximately $300 billion worth of goods. In an obvious retaliation, China raised tariffs on $60 billion worth of goods at a rate between 10% to 25% depending on the specific product. Despite statements to the contrary from the US Administration, the threat of tariffs on the third basket of $300 billion worth of goods is extremely concerning as they would have a significant impact on the US consumer if enacted.

The ultimate objective of the trade dispute is now even questionable with the emergence of two new battlegrounds. First, the US Government has blacklisted the Chinese firm Huawei, a global telecommunications company and a leader in 5G technology in a calculated move designed put political pressure on Beijing. Banning the transfer of US technology to Huawei would effectively cripple the Company, impeding China's official plan for continued social and economic development. Second, Trump has threatened tariffs of 5% (with staged escalation to 25% over time) on goods imported from Mexico if immigration from Central America through Mexico and into the United States isn't stopped. Given the high degree of integration between the US and Mexican economies, including important manufacturing supply chains, these tariffs would be extremely damaging to both Mexico and the United States. Obviously, the President's willingness to use trade threats as leverage to achieve geopolitical objectives creates an entirely new level of uncertainty for investors.

We have long held the view that the global economy (and most importantly the US) would avoid a recession despite weakening forward-looking indicators, most notably the global composite PMIs and the forward yield curve. However, we must now acknowledge that the risk of a more severe economic downturn is rising but have identified three potential developments that could extend the cycle. First, the final tranche of tariffs on the remaining $300 billion worth of goods from China may not be enacted and President Trump may be willing to settle for a relatively weaker deal to improve his re-election chances in 2020. Second, tariffs on imported goods from Mexico may be avoided if Trump receives enough assurances that Mexican authorities will step up their efforts to secure the border (or some other similar type of concession). Finally, the FED may aggressively lower the federal funds rate in a preemptive move to stimulate the domestic economy, boosting growth and inflation.

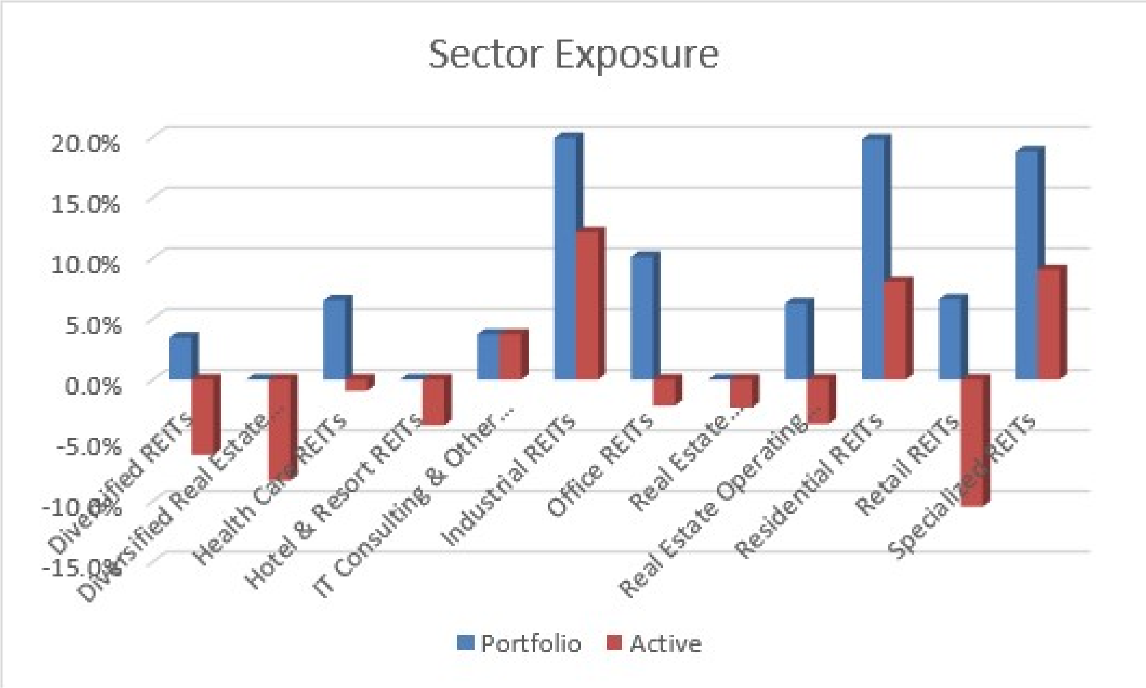
The markets have clearly put a tremendous amount of faith in the FED's ability to rescue the economy from any potential economic fallout from Trump-imposed tariffs. Based on the forward curve, a 25 bps interest rate cut in July (not coincidentally post the G-20 meeting to be held June 28 to 29, where Trump and Xi could meet face to face) is more likely than not. In fact, a total of three interest rate cuts have been priced in by December 2019/January 2020. We will continue to watch consumer confidence carefully (which improved in May to 134.1, a near 20-year high), jobless claims (which remained near 50-year lows in May) and the unemployment rate (which remained at 3.6% in May, the lowest rate since December 1969) for any signs of an impending economic downturn. As of today, we still believe that a full-blown recession can be avoided if the FED is willing to act quickly in an accommodative manner.

Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included Specialized REITs (+246 bps), Industrial REITs (+238 bps) and Retail REITs (+218 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 Retail REITs, Industrial REITs and Specialized REITs sub-industries more than offset negative contributions from the Hotel & Resort REITs, Real Estate Operating Companies and Diversified Real Estate Activities sub-industries.



Source: Ninepoint Partners

We are currently overweight Industrial REITs, Specialized REITs and Residential REITs while underweight Retail REITs, Diversified Real Estate Activities and Diversified REITs. This positioning is consistent with strong demand for real estate tied to technology driven businesses involved in ecommerce (distribution and logistics warehouses at the expense of bricks-and-mortar retail), communication (cell phone towers) and cloud services (data centers). Solid fundamentals for multi-family and single-family housing is 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 (+118 bps), American Tower (+109 bps) and Prologis (+90 bps). Top detractors year-to-date included Colliers International (-59 bps), Braemar Hotels & Resorts (-57 bps) and Vail Resorts (-46 bps).

In May, our top performing investments included American Tower (+27 bps), Equinix (+25 bps) and Interxion (+24 bps) while Braemar Hotels & Resorts (-73 bps), CBRE Group (-22 bps) and Brookfield Property Partners (-19 bps) underperformed.

In terms of activity during the month, when we read President Trump's tweet regarding the escalation of the trade war with China, we immediately moved to position the portfolio more defensively. We raised our cash position, boosted positions in the Residential REITs, Specialized REITs and Health Care REITs sub-industries and reduced positions in the Diversified Real Estate Activities, Real Estate Services, Hotel & Resort REITs and Retail REITs sub-industries. Our relative performance in May, slightly behind our benchmark, is mildly disappointing but we believe that we have correctly repositioned the portfolio to reflect the current macro environment. Staying disciplined and following our investment process will be key to our continued success.

The Ninepoint Global Real Estate Fund was concentrated in 28 positions as at May 31, 2019 with the top 10 holdings accounting for approximately 37.2% of the fund. Over the prior fiscal year, 22 out of our 28 holdings have announced a dividend increase, with an average hike of 12.9%. 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] AS OF APRIL 30, 2022 (SERIES F NPP132) | INCEPTION DATE: AUGUST 5, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTI
Fund	-1.0%	-9.8%	-1.3%	-1.5%	12.7%	9.4%	9.1%	9.8%
MSCI World IMI Core Real Estate NR (CAD)	-3.3%	-8.2%	-3.3%	-2.6%	6.4%	2.9%	4.0%	4.8%

[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 May 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

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