Ninepoint Global Real Estate Fund

May 2021 Commentary

Investment Team

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Year-to-date to May 31, the Ninepoint Global Real Estate Fund generated a total return of 7.50% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of 8.22%. For the month, the Fund generated a total return of -1.08% while the Index generated a total return of -0.01%.

The Covid-19 vaccine rollout is accelerating globally and regions with elevated vaccination rates are quickly returning to normal. In the United States, approximately 64% of the population has received at least one dose and approximately 53% of the population has been fully vaccinated. After a slow start in Canada, approximately 68% of the population has now received at least one dose but only approximately 7% of the population has been fully vaccinated. Hopefully, these trends continue to improve since health experts believe that a vaccination rate of about 50% to 60% is needed to dramatically lower the number of new cases and bring transmission of the virus under control. Given the recent progress, it is reasonable to assume that a return to normal is finally in sight.

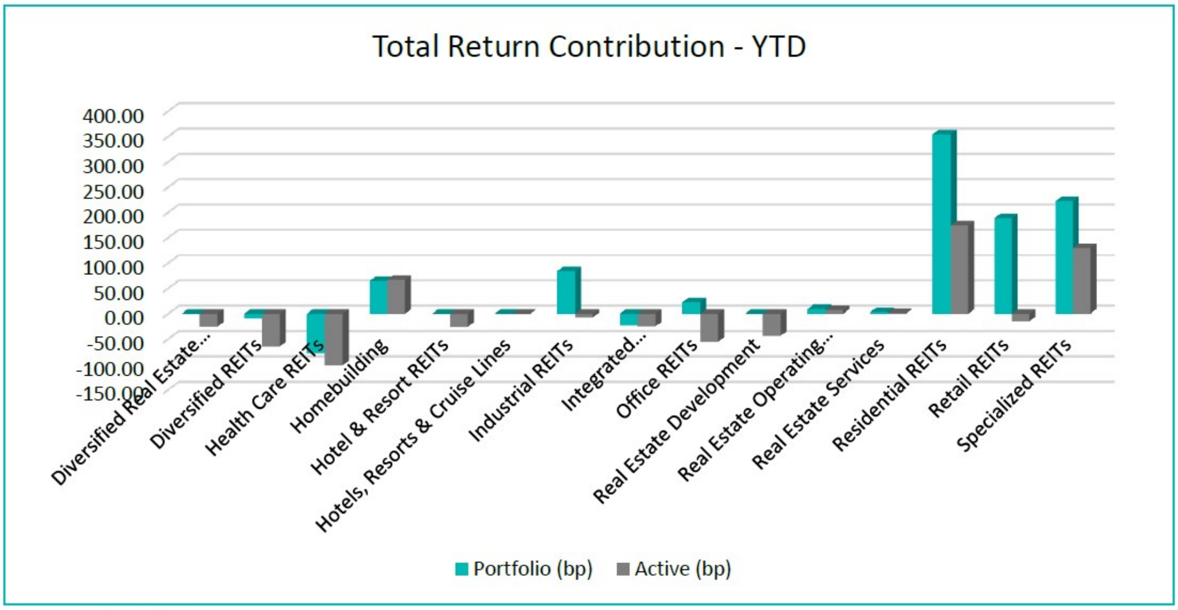
As we lap the depths of the Covid-19 lockdowns on a year-over-year basis, investors are trying to interpret incoming economic data during what has historically been a tricky month for the markets. Recent data points have been choppy, which has likely contributed to short, sharp rotations from value/cyclicals toward growth/momentum and back again. Most notably, US non-farm payrolls were vastly below expectations for April (released May 7th), coming in at 266,000 jobs with an unemployment rate of 6.1% compared to 1,000,000 jobs and an unemployment rate of 5.8% expected. Our interpretation of the employment situation is not of a stalling economic recovery but rather a timing mismatch between job seekers and employers, particularly in the leisure and hospitality sectors. Conversely, the April Consumer Price Index (released May 12th) was vastly above expectations, coming in at 0.9% for the month or 3.0% over the last twelve months, excluding food and energy, compared to estimates of 0.3% and 2.3% respectively. Because the biggest contributors to the jump were tied to pent up demand for reopening-related goods and services, we believe that the transitory inflation argument still holds.

Over the next few months, determining whether the effects are transitory or more permanent will shape the path of tapering and, eventually, interest rate hikes. For now, we will continue to rely on guidance from the US Federal Reserve and trust that they will provide easy monetary conditions for the foreseeable future thus prolonging the equity cycle through at least 2023. Bond investors seem to generally agree with this outlook, with long-term interest rates still well below 2.0% (the US 10-year Treasury bond yield is currently pinned around 1.60%), which is supportive of elevated equity multiples. Expected earnings growth is also supportive of near-term multiples, with S&P 500 earnings growth to reach almost 35% in calendar 2021 and approximately 10% in calendar 2022, according to FactSet.

But valuations are certainly elevated relative to historical levels, with the S&P 500 currently trading at approximately 21x twelve month forward earnings compared to the 5-year average multiple of approximately 18x and the 10-year average multiple of approximately 16x. We would therefore characterize the current environment as mid-cycle, where positive returns depend on identifying companies with accelerating earnings, cash flow and dividend growth that can offset earnings or cash flow-multiple contraction. We think this environment bodes well for the relative performance of our dividend and real asset strategies over the medium term.

Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included Residential REITs (+354 bps), Specialized REITs (+222 bps) and Retail REITs (+189 bps) while top detractors by sub-industry included Health Care REITs (-77 bps), Integrated Telecommunication Services (-23 bps) and Diversified REITs (-9 bps) on an absolute basis.

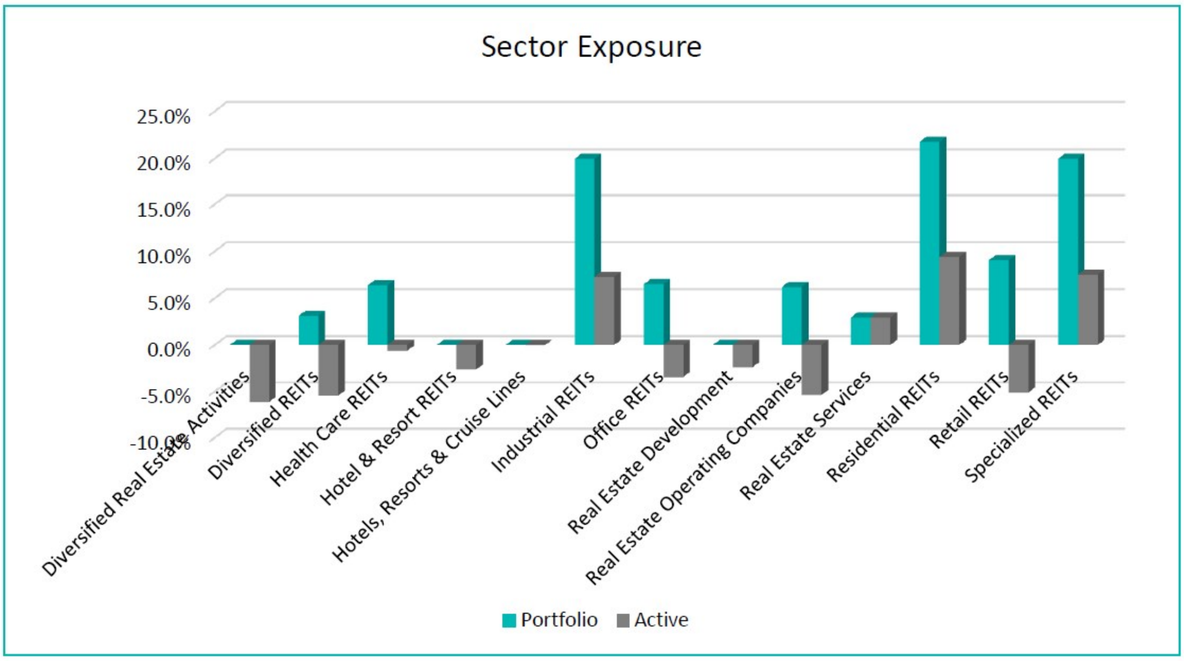
On a relative basis, positive return contributions from the Residential REITs (+174 bps), Specialized REITs (+130 bps) and Homebuilding (+66 bps) sub-industries were offset by negative contributions from the Health Care REITs (-102 bps), Diversified REITs (-65 bps) and Office REITs (-55 bps) sub-industries.



Source: Ninepoint Partners

We are currently overweight Residential REITs, Specialized REITs and Industrial REITs while underweight Diversified Real Estate Activities, Diversified REITs and Real Estate Operating Companies. As the world begins to reopen and the markets anticipate a return to normal, quick rotations are occurring underneath the surface of the broad indices. We are now looking to position for the middle phase of the investment cycle, where above-average earnings or cash flow growth is required to compensate for some degree of multiple-compression.

We continue to believe that certain sub-industries in the Real Estate sector, dependent on falling unemployment, reduced mobility restrictions and a return-to-office should do well through the balance of the cycle.



Source: Ninepoint Partners

The Ninepoint Global Real Estate Fund was concentrated in 30 positions as at May 31, 2021 with the top 10 holdings accounting for approximately 35.7% of the fund. Over the prior fiscal year, 21 out of our 30 holdings have announced a dividend increase, with an average hike of 4.8% (median hike of 4.1%). 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
Ninepoint Partners

NINEPOINT GLOBAL REAL ESTATE FUND - COMPOUNDED RETURNS[1]
AS OF MAY 31, 2021 (SERIES F NPP132)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	-1.1%	7.5%	7.8%	9.4%	12.3%	7.8%	8.5%	8.9%
Index	0.0%	8.2%	6.4%	10.2%	17.7%	4.4%	4.3%	4.4%

[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, 2021; 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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