Ninepoint Global Real Estate Fund

October 2018 Commentary

Investment Team

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Vice President, Portfolio Manager

Year-to-date to October 31, the Ninepoint Global Real Estate Fund generated a total return of -2.11% compared to the FTSE EPRA/NAREIT Index (CAD), which generated a total return of 1.57% and our new benchmark the MSCI World IMI Core Real Estate Index (CAD), which generated a total return of 0.12%. Note that we have changed our benchmark purely for administrative reasons, but it does make our year-to-date returns appear slightly better on a relative basis.

Returns in the month of October were disappointing on an absolute and relative basis, with the Fund generating a total return of -3.38% while the FTSE EPRA/NAREIT Index generated a total return of -1.87% (CAD) and the MSCI World IMI Core Real Estate Index generated a total return of -2.55% (CAD). In October, the US 10-year bond yield rallied from 3.06% to 3.16%, remaining above the key psychological level of 3.0%, which acted as a headwind for the rate-sensitive Real Estate sector. In terms of sub-sector performance during the month, Real Estate Operating Companies, Specialized REITs and Real Estate Services were particularly weak while our Residential REITs and Retail REITs generated positive returns. Finally, currency hedging detracted from performance in October as the CAD weakened despite the successful negotiation of the USMCA trade deal.

October 2018 will be remembered for the dramatic correction in the equity markets, with the S&P 500 falling 10.6% to an intraday low on October 29, before rebounding. The list of potential factors or causes of the correction have been well documented (including a more-hawkish than expected FED tone that led to higher rate expectations, a deteriorating US-China relationship that led to the enactment of trade tariffs, wage and materials cost inflation that led to margin compression in various earnings reports and the looming US midterm elections that led to political uncertainty) but, in realty, no single factor can be blamed.

Whatever the trigger, aggressive positioning in crowded high-growth and high-multiple stocks was unwound and the entire market de-rated. Broadly speaking, rising rates and uncertainty imply lower P/E multiples but consider the following scenarios for the S&P 500 based on forward earnings estimates: 15x $178 = 2,670 (seems unlikely since earnings growth remains positive in 2019), 16x $178 = 2,850 (very reasonable), 17x $178 = 3,025 (quite possible) or 18x $178 = 3,200 (seems unlikely without an improvement in either the FED's tone or US-China trade rhetoric).

Therefore, we believe that it is too early to position for an outright downturn and expect markets to end the year higher than today. Positive seasonality for the markets should kick in (gains in November and December occur 75% of the time based on data from the past twenty years), the midterm elections proved to be benign (on average markets rally 7% from August 31 to year-end around midterms based on history) and earnings expectations and market valuations have been reset to reasonable levels.

Our modelling indicates that the Canadian dollar is roughly fairly-valued. However, the equity market selloff has introduced a new level of complexity to our FX analysis as prior correlations become less statistically significant. We have therefore maintained hedges on half of our USD/CAD exposure to reduce volatility in the Fund.

Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund included Aroundtown (+75 bps), Killam Apartment (+74 bps) and InterRent (+68 bps). Top detractors year-to-date included Immobiliare Grande Distribuzione (-61 bps), CBRE (-54 bps) and Equinix (-46 bps).

The Ninepoint Global Real Estate Fund was concentrated in 28 positions as at October 31, 2018 with the top 10 holdings accounting for approximately 43.5% of the fund. Over the prior fiscal year, 17 out of our 28 holdings have announced a dividend increase, with an average hike of 9.9%. 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 DECEMBER 31, 2021 (SERIES F NPP132) | INCEPTION DATE: AUGUST 5, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCE
Fund	8.4%	35.8%	15.8%	20.2%	35.8%	17.7%	12.8%	12
MSCI World IMI Core Real Estate NR (CAD)	4.7%	25.5%	9.8%	11.8%	25.5%	9.7%	7.0%	6.

[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 October 31, 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

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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