Ninepoint Global Real Estate Fund

September 2019 Commentary

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

Year-to-date to September 30, the Ninepoint Global Real Estate Fund generated a total return of 19.77% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of 16.78%. For the month, the Fund generated a total return of 0.69% while the Index generated a total return of 2.13%.

Unfortunately, some of the drivers behind our significant outperformance last month reversed in September, with bond yields spiking and consensus over-weights underperforming consensus under-weights by a wide margin. Despite the whipsaw, we have been able to protect much of our year-to-date gains relative to the benchmark by simply following our disciplined investment process.

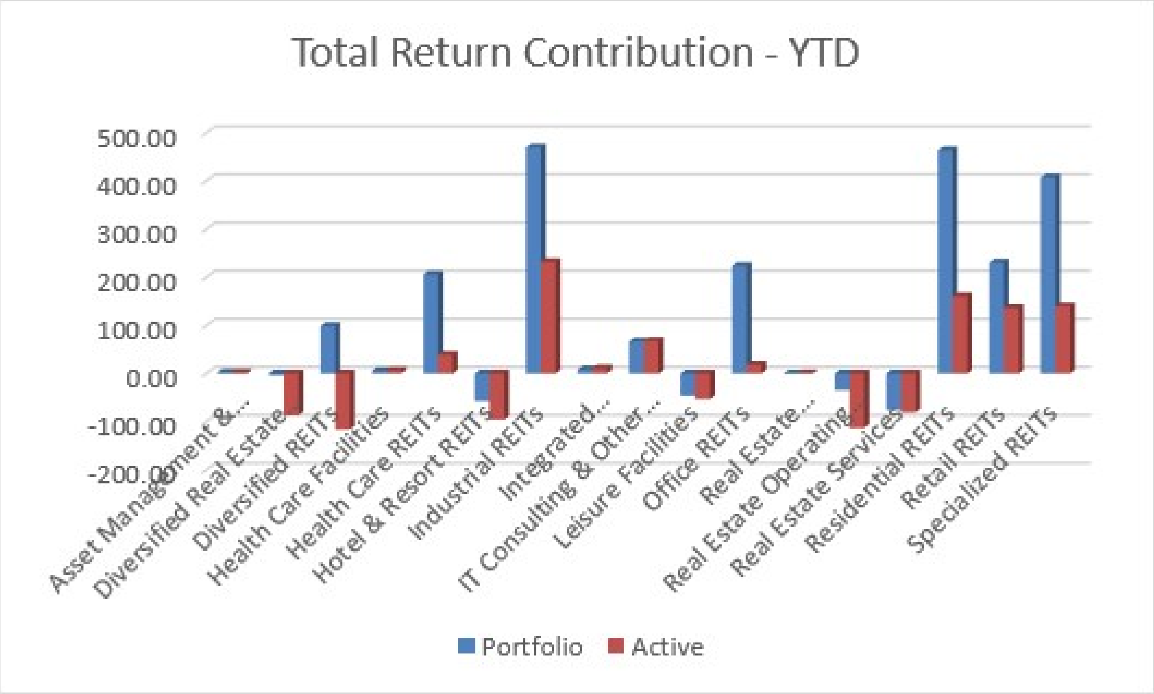
Although we always strive to adhere to our process irrespective of the noise, investing in today's environment feels particularly challenging. Investor crowding (overweight Industrial REITs and Residential REITs and underweight Retail REITs and Office REITs), unusual fundamentals (historically wide valuation gaps between sub-industries) and deteriorating economic data (US manufacturing ISM at 47.8%, the lowest reading since June 2009) have led to outsized market moves. On top of these issues, protests in Hong Kong, the threat of impeachment proceedings against President Trump and Elizabeth Warren's recent rise in the polls have created even more uncertainty.

However, global monetary easing (the ECB cut rates on the deposit facility by 10 bps to -0.5% and restarted asset purchases at a rate of €20 billion per month while the US Fed cut interest rates by 25 bps to 2.00%) and the potential for a truce in the US-China trade war (high-level meetings will take place in Washington on October 10 and 11) provided reasons to believe in the "mid-cycle correction" argument.

So it's no wonder that the broad markets have been whipping around as investors flip-flop between positioning for an outright recession (believing that global central banks will be unable to prevent negative GDP growth resulting from the ongoing trade war) and positioning for a regime change in market leadership (believing that the beaten down sub-industries are simply too cheap relative to the relatively more expensive but higher-growth sub-industries).

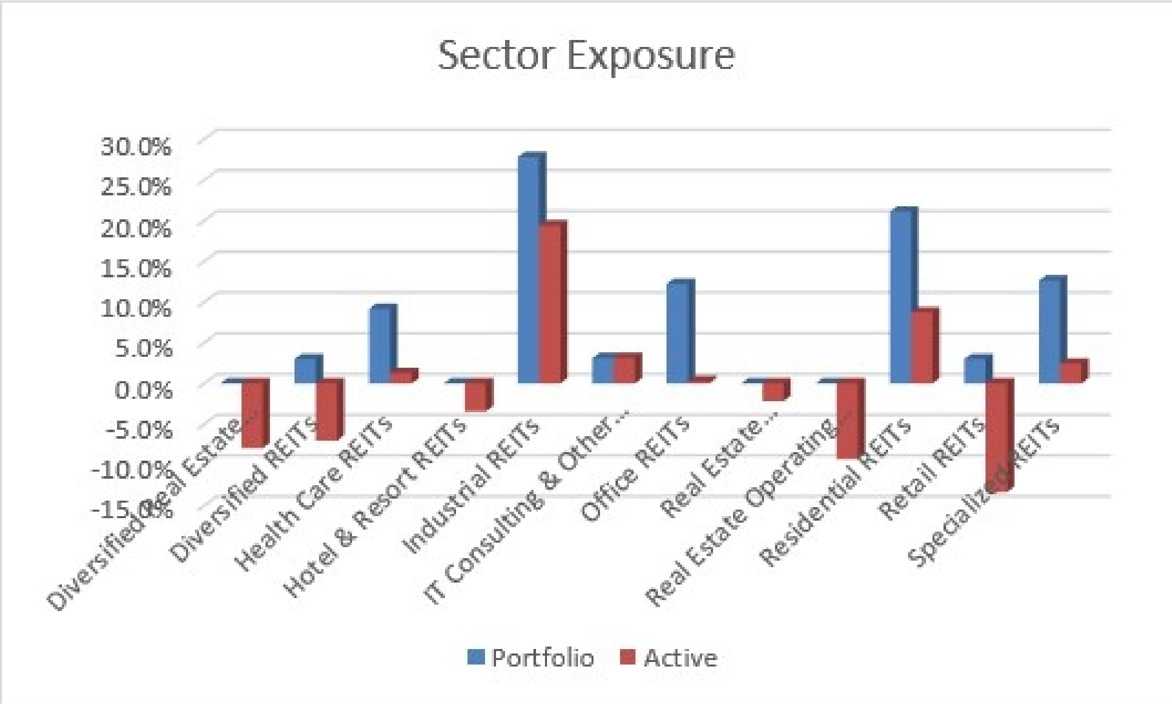
From our perspective, we will continue to follow our investment process (both on the buy side and the sell side of trades), construct a concentrated but diversified portfolio, hold a higher-than-normal cash balance and watch the incoming data extremely closely. We firmly believe that the path forward is highly dependent on at least a partial resolution to the US-China trade negotiations. Cancelling or even just postponing the previously announced tariff increases should be enough to avoid the worst-case scenario, an economic downturn culminating in a recession. If Trump's end goal is to be re-elected next November, he must ensure a reasonably firm domestic economy driven by strong consumer confidence, solid employment figures and a recovery in the manufacturing sector by any means necessary. If this scenario plays out, the broad markets should be able to gain ground through the balance of the year.

Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included Industrial REITs (+470 bps), Residential REITs (+464 bps) and Specialized REITs (+407 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 Industrial REITs, Residential REITS, Specialized REITs and Retail REITs sub-industries more than offset negative contributions from the Diversified REITs, Real Estate Operating Companies, Hotel & Resort REITs and Diversified Real Estate Activities sub-industries.



Source: Ninepoint Partners

We are currently overweight Industrial REITs, Residential REITs, IT Consulting & Other Services and Specialized REITs while underweight Retail REITs, Real Estate Operating Companies, 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), 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 (+181 bps), Prologis (+143) and American Tower (+120 bps). Top detractors year-to-date included Digital Realty (-61 bps), Colliers International (-59 bps) and Braemar Hotel & Resorts (-58 bps).

In September, our top performing investments included CyrusOne (+27 bps), Dream Office (+26 bps) and Dream Industrial (+19 bps) while American Tower (-21 bps), Crown Castle (-13 bps) and Kilroy Realty (-9 bps) underperformed.

Industrial REITs have put up sub-industry leading performance within the Real Estate Sector this year and have been exceptional investments over the past few years. The driver behind the performance has been easy to understand, with the growth in ecommerce (currently expected to grow to approximately 11% of total retail sales in the US in 2019) powering demand for distribution and logistics warehouses near densely populated, urban areas.

For investors looking for industrial exposure in Canada and the US, there are a several options but our position in Dream Industrial REIT performed particularly well in September. Though not as large as some of the major US-based Industrial REITs, Dream owns approximately 22 million square feet of industrial assets across Canada and the United States, with 32% in Ontario, 27% in Western Canada, 25% in the US and 16% in Quebec. With a property value of approximately $2.3 billion and a market cap of approximately $1.7 billion, the REIT has enough size and scale to execute on various valuation creation strategies including accretive acquisitions, capital recycling and active property management.

At mid-year, Dream reported same store NOI growth of 4.7% in the second quarter and 3.0% over the first six months. SSNOI increased across all regions due to an increase in occupancy to 96.3% and continued strength in Ontario and Quebec rental spreads of 20.2% and 17.8% respectively in Q2 2019. In the GTA, which represents approximately 90% of GLA in the Ontario region, SSNOI increased 5.6% in Q2 and 5.3% over the first six months, an indication of continued strong demand.

Dream Industrial's balance sheet is solid, with a net debt-to-assets ratio of 37.4%, net debt-to-adjusted EBITDA of 6.4x and available liquidity of approximately $95 million. This should be ample flexibility to execute on the existing acquisition and development pipeline of about $300 million, according to management. We believe that the market will reward continued net asset value growth (reported NAV grew 9.9% on a year over year basis to $11.04 per share), if management is able to close on some of these potential deals at an attractive cap rate.

The Ninepoint Global Real Estate Fund was concentrated in 30 positions as at September 30, 2019 with the top 10 holdings accounting for approximately 32.2% of the fund. Over the prior fiscal year, 22 out of our 30 holdings have announced a dividend increase, with an average hike of 11.8%. 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 NOVEMBER 30, 2021 (SERIES F NPP132) | INCEPTION DATE: AUGUST 5, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEP
Fund	0.8%	25.2%	1.5%	16.5%	27.4%	12.6%	11.6%	10.
MSCI World IMI Core Real Estate NR (CAD)	1.3%	19.8%	-0.7%	10.7%	22.1%	7.0%	6.6%	5.8

[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 September 30, 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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