Ninepoint Global Real Estate Fund

September 2020 Commentary

Investment Team

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Vice President, Portfolio Manager

Year-to-date to September 30, the Ninepoint Global Real Estate Fund generated a total return of 1.71% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of -15.82%. For the month, the Fund generated a total return of-0.80% while the Index generated a total return of -0.75%.

After a summer melt up in the market, culminating in the best August performance for the S&P 500 in over 30 years, September lived up to its reputation as one of the most difficult months for investors. But we really shouldn't complain about the weakness as it was the first down month since the depths of the Covid-19 pandemic related-selloff last March. Although the recovery rally from the lows was spectacular, over the past month the Energy sector was particularly hard hit and even the market leaders in the Communication Services, Information Technology and Consumer Discretionary sectors experienced painful declines. Hopefully, the September weakness simply signals a pause in the nascent recovery as opposed to anything more serious.

It is actually reasonably tough to pinpoint a single trigger or catalyst for the correction, given that normal seasonality happened to coincide with pockets of speculation in the market (fueled in part by retail traders and social media fervor), a FOMC meeting that disappointed some who were looking for even more aggressive quantitative easing (despite a commitment to keep the federal funds rate at 0% to 0.25% until labour market conditions have improved and a willingness to adjust monetary policy as needed), the passing of US Supreme Court Justice Ruth Bader Ginsburg (which sets up a political fight over the next SCOTUS nomination and could lead to a much more conservative ideology in the courts), few signs of progress regarding the next fiscal support package (even as current programs come to an end and millions of people remain unemployed) and a chaotic presidential debate (that did little to provide either confidence or comfort in the current political environment).

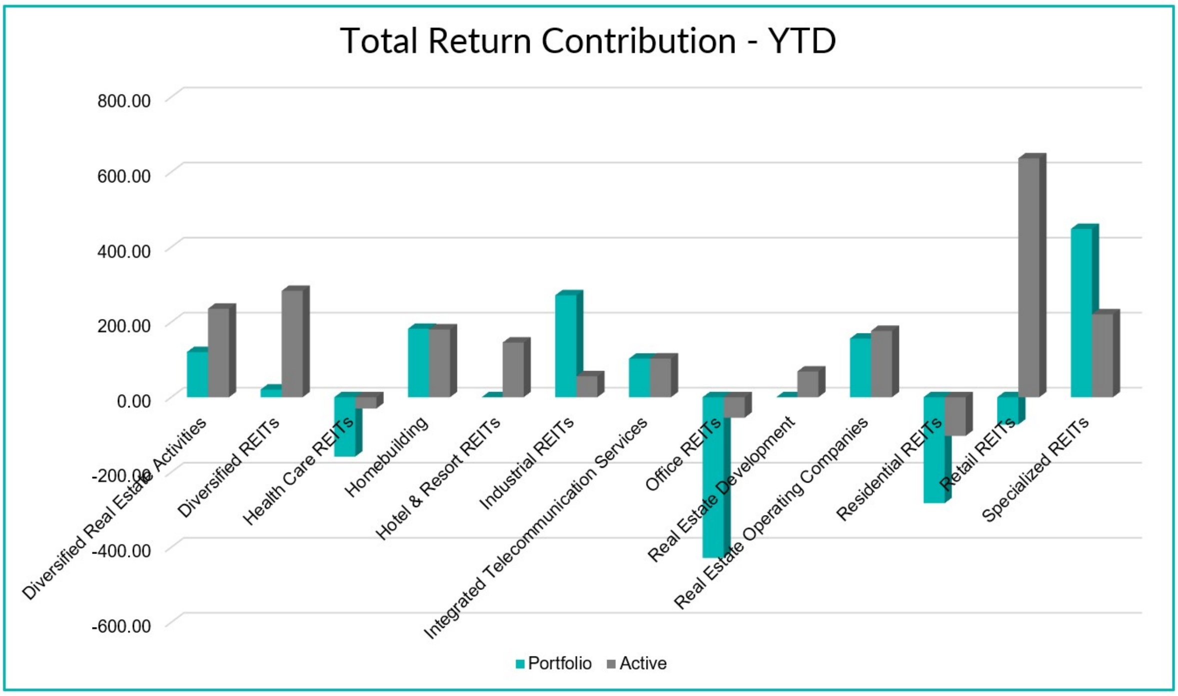
Thankfully, underneath the surface, the economic data continues to steadily improve. The JPMorgan Global Composite PMI came in at 52.1 in September, the US Composite PMI came in at 54.3 in September, the Eurozone Composite PMI came in at 50.4 in September and the Caixin China General Manufacturing PMI came in at 53.0 in September; all above the key 50.0 expansionary level. Further, US retail sales have surpassed pre-Covid-19 pandemic levels and reached $537.5 billion in August (an increase of 0.6% from July and 2.6% above August 2019). Importantly, new & existing home sales and new & used automobile sales continue to surpass expectations.

The biggest source of concern relates to the employment situation, with approximately 11 million jobs lost in the United States and almost 750,000 jobs lost in Canada compared to pre-Covid-19 pandemic levels. Small and medium sized businesses, especially independent restaurants, shopping & retail, beauty & spas, bars & nightlife venues and gyms & fitness centers are increasingly seeing temporary closures become permanent. With millions of people still suffering from the fallout of the pandemic, it is crucial to deliver incremental fiscal stimulus until we have a safe, effective vaccine.

During the September correction, we continued to broaden our exposure and rebalance our portfolios to position for a return to positive GDP growth. Although the weeks leading up to a presidential election are typically volatile, once investors can be reasonably certain of the outcome (whether that happens the evening of the election or in the days ahead) we believe that it will act as a clearing event for the markets. Dividend-paying equities remain extremely attractive relative to bonds and, as the economic recovery becomes self-sustaining, rising growth and inflation expectations should provide a nice tailwind for stocks and real assets.

Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included Specialized REITs (+448 bps), Industrial REITs (+271 bps) and Homebuilding (+182 bps) while top detractors by sub-industry included Office REITs (-428 bps), Residential REITs (-283 bps) and Health Care REITs (-158 bps) on an absolute basis.

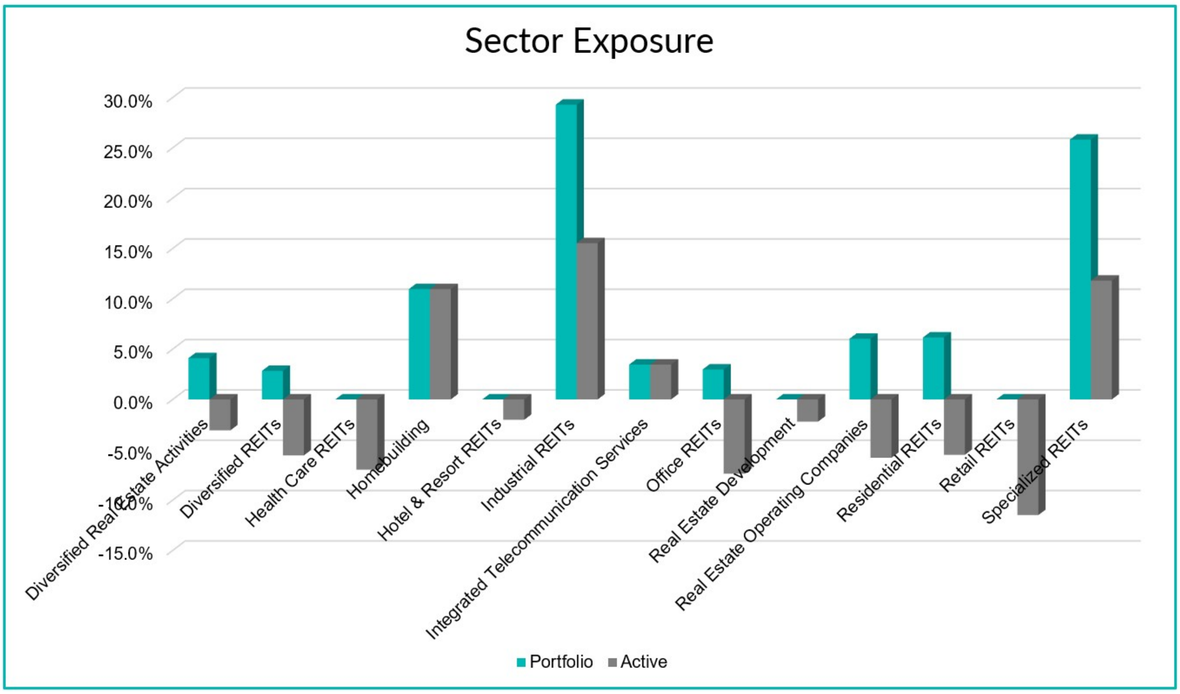
On a relative basis, positive return contributions from the Retail REITs, Diversified REITs and Diversified Real Estate Activities sub-industries were offset by negative contributions from the Residential REITs, Office REITs and Health Care REITs sub-industries.



Source: Ninepoint Partners

We are currently overweight Industrial REITs, Specialized REITs and Homebuilding while underweight Retail REITs, Office REITs and Health Care REITs. At month end, we held an 8.4% cash position and have emphasized sub-industries that should benefit from work-from-home and consume-at-home trends. We are looking to deploy the balance of our capital as the uncertainty related to the US Presidential election dissipates.

However, it is important to note that sector allocations though the balance of the year will be highly dependent on the outcome of the election. The successful reopening of the economy (eventually accelerated by the discovery of a safe, effective vaccine) should lead to a sharp rebound in some of the hardest hit sub-industries. We are prepared to position the fund accordingly should that scenario play out.



Source: Ninepoint Partners

At the individual security level, top contributors to the year-to-date performance included Equinix (+124 bps), Tricon (+120 bps) and Lennar (+99 bps). Top detractors year-to-date included Dream Office (-113 bps), Kilroy Realty (-102 bps) and Invitation Homes (-84 bps).

In September, our top performing investments included Lennar (+43 bps), DR Horton (+31 bps) and SBA Communications (+23 bps) while CyrusOne (-42 bps), LondonMetric (-22 bps) and QTS Realty (-12 bps) underperformed.

The Ninepoint Global Real Estate Fund was concentrated in 28 positions as at September 30, 2020 with the top 10 holdings accounting for approximately 38.1% of the fund. Over the prior fiscal year, 20 out of our 28 holdings have announced a dividend increase, with an average hike of 9.3% (median hike of 5.0%). 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 SEPTEMBER 30, 2020 (SERIES F NPP132)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	-0.8%	1.7%	6.4%	11.8%	1.5%	7.5%	9.0%	8.8%
Index	-0.7%	-15.8%	0.5%	5.7%	-16.2%	1.2%	2.6%	2.0%

[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, 2020; 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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