# Ninepoint Global Real Estate Fund

## June 2022 Commentary

**Jeff Sayer, CFA**
Vice President, Portfolio Manager

Year-to-date to June 30, the Ninepoint Global Real Estate Fund generated a total return of -22.22% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of -19.38%. For the month, the Fund generated a total return of -6.73% while the Index generated a total return of -6.99%.

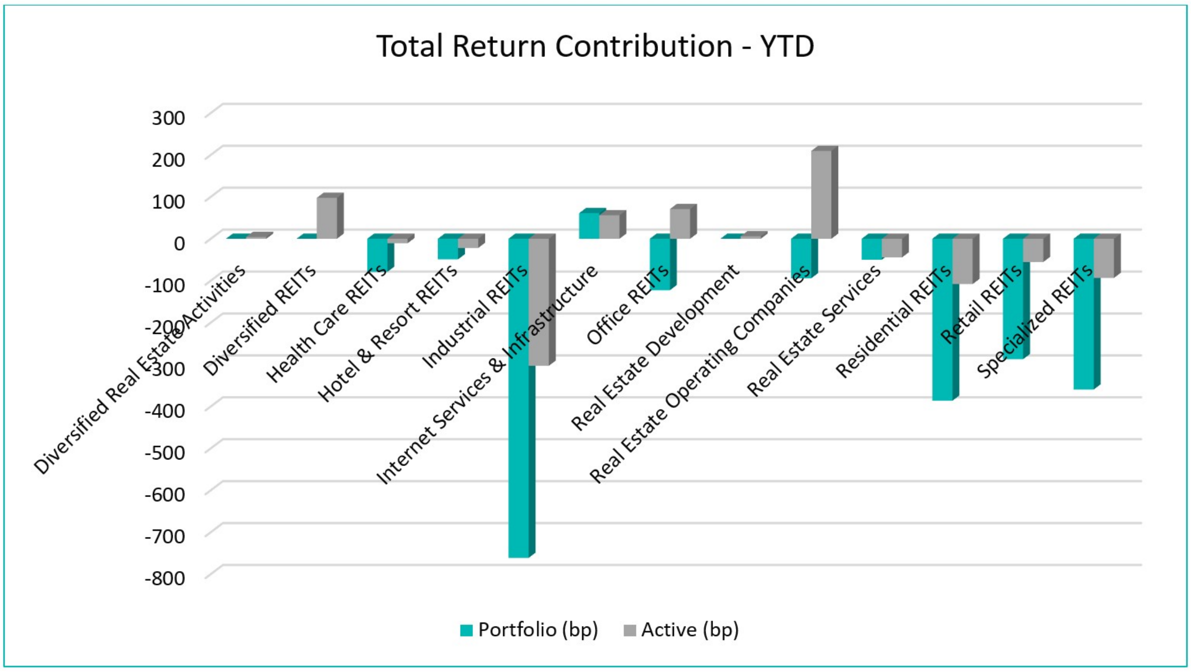
With the S&P 500 closing at 3,785 on June 30th, the best gauge of stocks in the United States is now officially in a bear market. Down 20.6% year-to-date and trading at 16.3x 2022 consensus estimates and 15.2x 2023 consensus estimates (according to Refinitiv), fear regarding an impending recession has gripped investors. Broadly speaking, the first six months of 2022 has been the worst start to the year since 1970 and the pain has been even more severe in the unprofitable but high-growth sub-sectors of the market. However, with an average drawdown in a recession of approximately 32% (and a median drawdown in a recession of approximately 27%, a better calculation since it smooths the impact of the 2008/2009 global financial crisis) much of the damage has already been done.

As has been the case all year, investors have been fixated on inflation and the ensuing path of future interest rate hikes. The most recent CPI print (for May but released on June 10) was particularly troublesome for the equity markets since it essentially negated the argument of transitory inflation. The report showed an increase of 8.6% over the last twelve months and 6.0% over the last twelve months excluding food and energy, a slight increase from the 8.3% headline number for April and a slight decrease from the 6.2% core number for April. However, the details of the report indicated that some of the categories that had been deemed transitory (such as gasoline, used cars & trucks and apparel) and had seen price declines over the past month or two suddenly reaccelerated to the upside.

The concerning data forced a quick response, so after the Fed's 50 bps interest rate hike on May 4 to a range of 0.75% to 1.00%, the FOMC moved 75 bps on June 15 to a new range of 1.50% to 1.75%. The official statement, summary economic projections, Powell's press conference and various subsequent speeches have suggested that another 50 bps or 75 bps interest rate increase should be expected on July 27. Beyond July, the futures curve is currently pricing additional hikes at the September, November and December FOMC meetings, implying a Fed funds rate of approximately 3.25% to 3.50% by December. Given the negative sentiment tied to rising inflation expectations, investors will need to see clear evidence that inflation is moderating before tempering rate hike expectations.

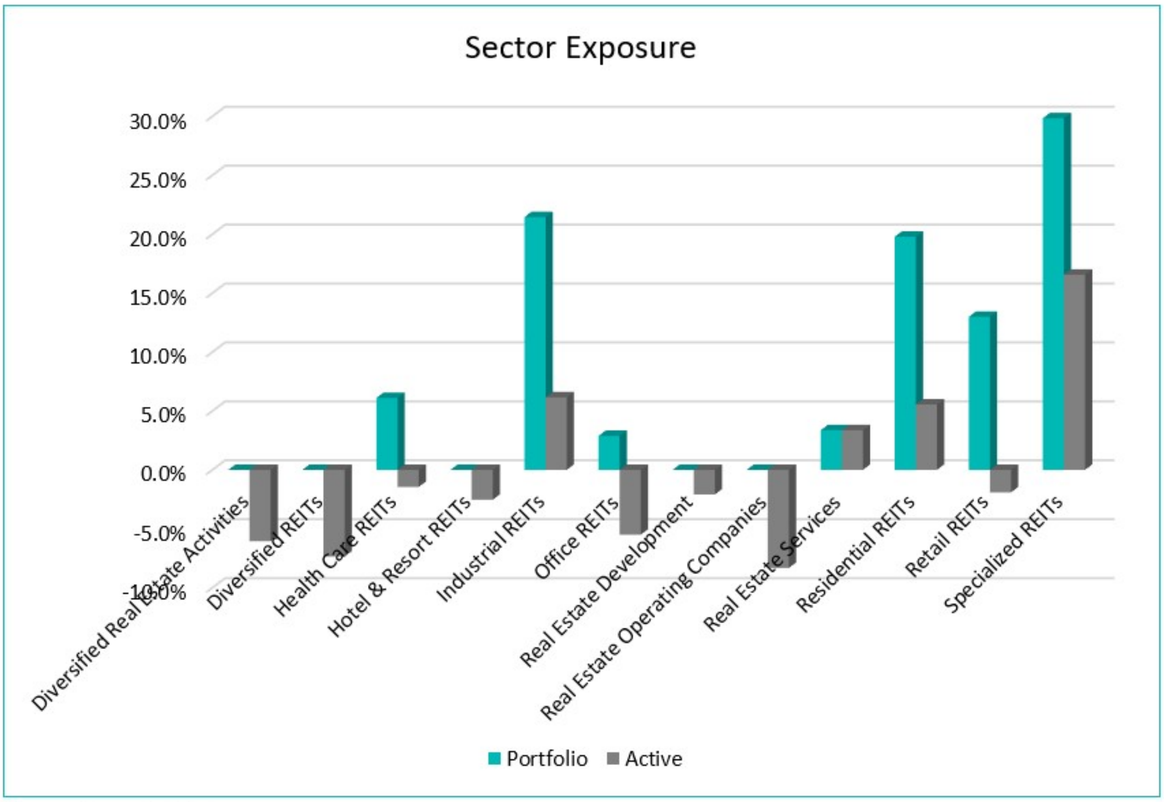
Although most of the year-to-date market decline could be attributed to multiple compression due to rising interest rates, investors have understandably started to question forward earnings expectations in a deteriorating economic environment (global PMIs have been steadily declining toward 50.0). Although the consensus estimates have been reasonably stable around $230 for 2022 and $250 for 2023, the threat of slowing growth and margin compression does pose a significant risk going forward. Theoretically, if we do see a challenging Q2 earnings season with materially lower guidance for the second half of 2022 and the full year 2023, we could experience a negative earnings revision cycle, which would likely represent the final phase of the equity market drawdown. We could then finally begin to look beyond the trough, to potentially easier monetary policy and earnings reacceleration going forward. In keeping with our mandates, we are concentrating our efforts on free cash flow positive, high quality, dividend growth companies and real asset investments given our positive assessment of the risk/reward outlook over the next two to three years.

Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included only Internet Services & Infrastructure (+61 bps) while top detractors by sub-industry included Industrial REITs (-761 bps), Residential REITs (-386 bps) and Specialized REITs (-360 bps) on an absolute basis.
On a relative basis, positive return contributions from the Real Estate Operating Companies (+210 bps), Diversified REITs (+98 bps) and Office REITs (+71 bps) sub-industries were offset by negative contributions from the Industrial REITs (-303 bps), Residential REITs (-108 bps) and Specialized REITs (-94 bps) sub-industries.




Source: Ninepoint Partners

We are currently overweight Specialized REITs, Industrial REITs and Residential REITs while underweight Real Estate Operating Companies, Diversified REITs and Diversified Real Estate Activities. Although the Industrial REITs have experienced a meaningful pullback, we remain positive on the outlook for warehousing, distribution and logistics assets. We also have been focusing our efforts on other sub-industries with the greatest potential for margin expansion and have been doing the fundamental work on various potential opportunities in the Specialized REITs and Health Care REITs sub-industries.




Source: Ninepoint Partners

The Ninepoint Global Real Estate Fund was concentrated in 29 positions as at June 30, 2022 with the top 10 holdings accounting for approximately 38.0% of the fund. Over the prior fiscal year, 18 out of our 29 holdings have announced a dividend increase, with an average hike of 11.0% (median hike of 3.4%). 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 JUNE 30, 2022 (SERIES F NPP132) | INCEPTION DATE: AUGUST 5, 2015

| | 1M | YTD | 3M | 6M | 1YR | 3YR | 5YR | INCEPTION |
|---|---|---|---|---|---|---|---|---|
| Fund | -6.7% | -22.2% | -14.7% | -22.2% | -6.5% | 5.2% | 6.0% | 7.2% |
| MSCI World IMI Core Real Estate NR (CAD) | -7.0% | -19.4% | -15.1% | -19.4% | -9.9% | -1.0% | 2.0% | 2.7% |

[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 June 30, 2022; 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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