Ninepoint Global Real Estate Fund

November 2022 Commentary

Year-to-date to November 30, the Ninepoint Global Real Estate Fund generated a total return of -20.43% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of -17.80%. For the month, the Fund generated a total return of 4.29% while the Index generated a total return of 6.28%.

Jeff Sayer, CFA
Vice President, Portfolio Manager

NINEPOINT GLOBAL REAL ESTATE FUND - COMPOUNDED RETURNS[1] AS OF NOVEMBER 30, 2022 (SERIES F NPP132) | INCEPTION DATE: AUGUST 5, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	Inception
Fund	4.3%	-20.4%	-2.3%	-4.6%	-13.8%	1.8%	4.4%	7.1%
MSCI World IMI Core Real Estate NR (CAD)	6.3%	-17.8%	-0.5%	-5.2%	-13.9%	-2.9%	1.7%	2.8%

As we enter the final month of the year, investors are looking to salvage what has been an incredibly difficult period for both global equities and bonds, with both asset classes plunging together. Without a doubt, equities have been disappointing, but bonds look set to record the worst performance in about 150 years. Although the absolute level of current interest rates may not be extreme, the pace of tightening in response to elevated inflation has been one of the fastest ever (the Fed has raised rates 375 bps from March to November and we expect another hike of 50 bps in December). As a result, equity investors are scrambling to adjust earnings multiples, bond investors are scrambling to adjust prices and corporations are scrambling to shore up balance sheets.

So, what must go right for the typical positive seasonality to kick in? Investors are likely focused on three key events before we can look ahead to 2023. We first had to get through Chairman Powell's speech at the Brookings Institution on November 30. Investors were anxious and cautiously positioned ahead of the event, fearing a potential repeat of Powell's speech at Jackson Hole last August, which was viewed as incredibly hawkish. Thankfully, this time around, Powell acknowledged that the full effect of rate hikes had yet to be felt and was more measured in his assessment of future risks to the economy. His prepared remarked seemed to suggest that rate hikes would slow to 50 bps in December and that the end of the tightening cycle could be as soon as next February or March. As we've said before, the beginning of the taper and the end of the tightening cycle is probably near, and most asset classes rallied hard on the day.

Investors have now turned their attention toward the final CPI release of the year, due to be announced on December 13. Recall that we've already seen the October CPI numbers moving in the right direction (up 7.7% in October year over year but the smallest increase since January 2022, compared to up 8.2% in September). Although shelter costs remain elevated (and will likely remain elevated through much of 2023), used cars & trucks, medical care, apparel, and airline fare indexes all declined in October. If the upcoming CPI release for November shows a continuation of these

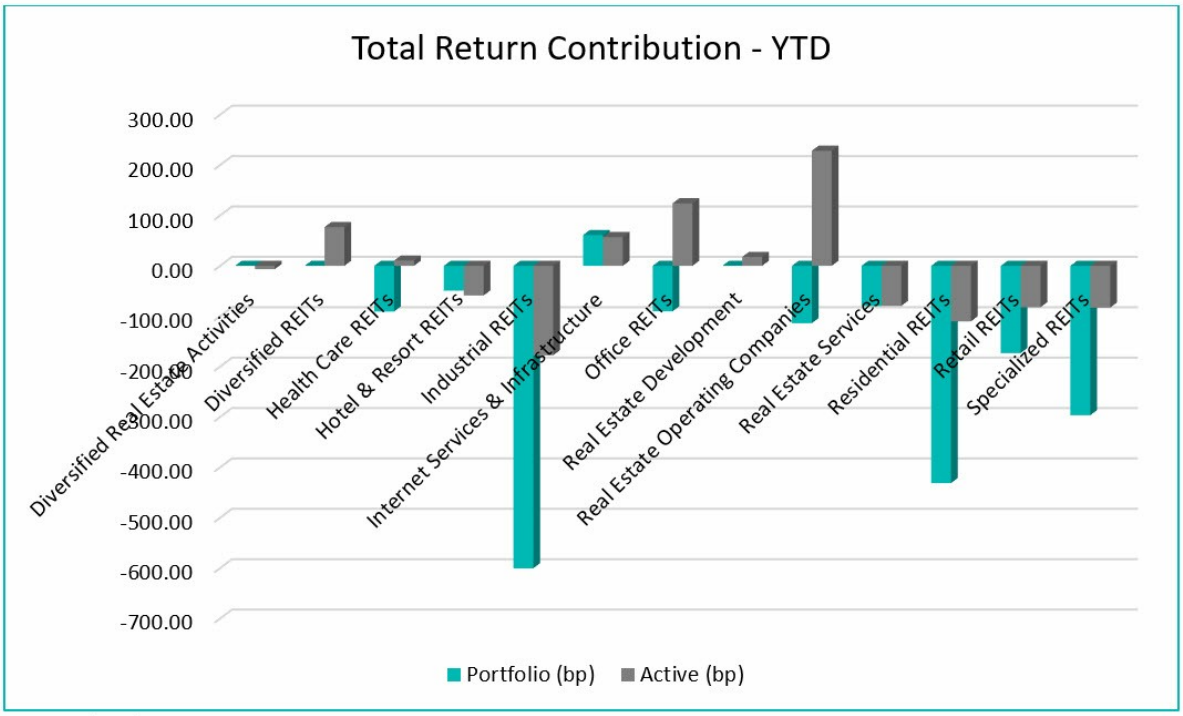
trends, it would provide additional confirmation that the terminal interest rate for the cycle is within sight.

Investors won't have to wait long for the Fed's reaction to the CPI print, since the last FOMC meeting of the year happens the day after this important economic release. Given the tone of Powell's speech at Brookings, we believe that it is reasonable to expect that the pace of tightening will begin to taper on December 14, with the Fed hiking 50 bps to reach 4.50%. The Chairman's speech and subsequent Q+A session will be particularly important to our understanding of the Fed's thinking on monetary policy and the concurrent release of the Fed's Summary of Economic Projections will likely contain crucial details regarding GDP growth expectations, unemployment forecasts and Fed Funds rate guidance. But if the tone and projections are consistent with our view of the macroeconomic environment, the terminal rate for the cycle could occur as soon as February or March of 2023. Should this play out as expected, we would anticipate the traditional rally over the final few weeks of 2022.

Into 2023, in an environment of gently moderating inflation but slowing growth, the most important drivers of investment performance will likely be valuation, balance sheet strength and the ability to consistently generate cash flow and earnings. Also, a greater component of total returns will likely come from dividend yields, which meshes nicely with our investment philosophy. 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.

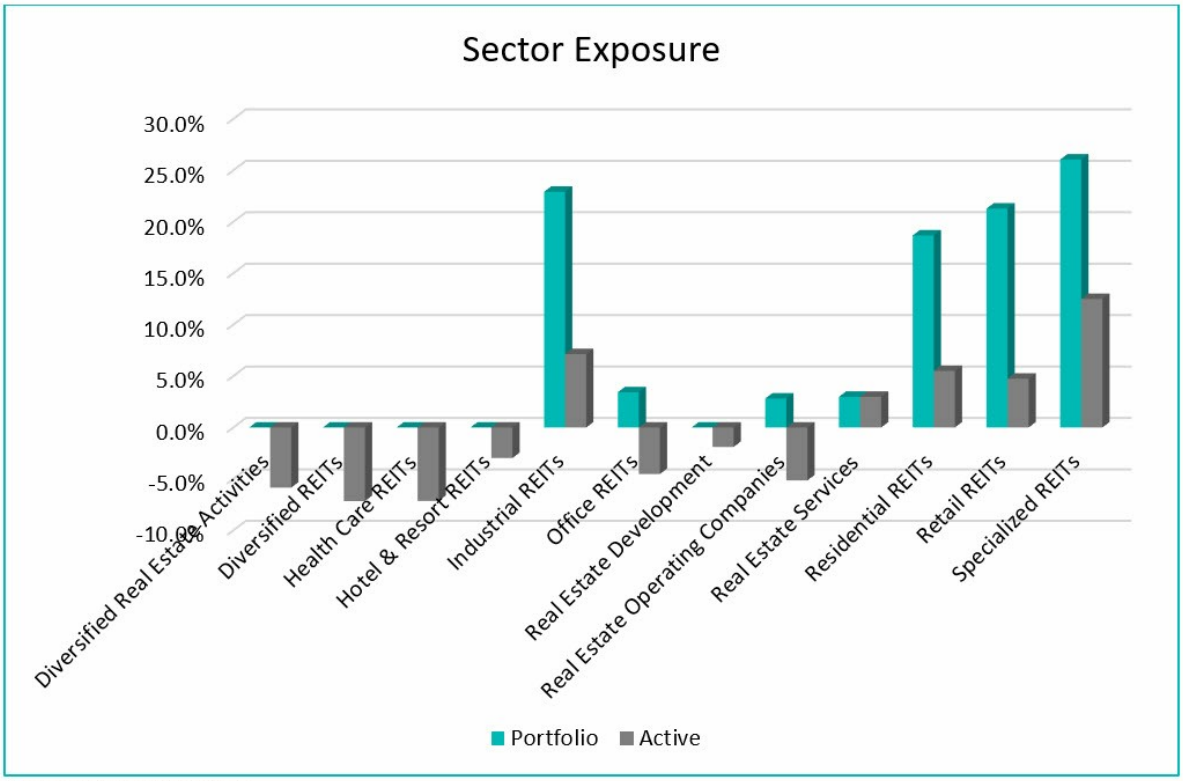
Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included only Internet Services & Infrastructure (+61 bps) while top detractors by sub-industry included Industrial REITs (-600 bps), Residential REITs (-431 bps) and Specialized REITs (-297 bps) on an absolute basis.

On a relative basis, positive return contributions from the Real Estate Operating Companies (+228 bps), Office REITs (+124 bps) and Diversified REITs (+77 bps) sub-industries were offset by negative contributions from the Industrial REITs (-177 bps), Residential REITs (-110 bps) and Specialized REITs (-83 bps) sub-industries.



Source: Ninepoint Partners

We are currently overweight Specialized REITs, Industrial REITs, and Residential REITs while underweight Diversified REITs, Health Care REITs, and Diversified Real Estate Activities. With signs of a global slowdown materializing and commentary from the US Federal Reserve suggesting that interest rates will remain higher for longer, we have been focused on high quality REITs with clean balance sheets and the greatest potential for consistent revenue and FFO growth. Although we expect the Fed to pause interest rate hikes in 2023, we are carefully watching for the negative earnings revision cycle to bottom and unemployment to peak to signal the start of a new equity bull market.



Source: Ninepoint Partners

The Ninepoint Global Real Estate Fund was concentrated in 30 positions as at November 30, 2022 with the top 10 holdings accounting for approximately 37.6% of the fund. Over the prior fiscal year, 18 out of our 30 holdings have announced a dividend increase, with an average hike of 7.4% (median hike of 2.0%). 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

[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 November 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

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