Ninepoint Global Real Estate Fund

December 2022 Commentary

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Year-to-date to December 31, the Ninepoint Global Real Estate Fund generated a total return of -23.40% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of -20.21%. For the month, the Fund generated a total return of -3.73% while the Index generated a total return of -2.94%.

Ninepoint Global Real Estate Fund - Compounded Returns[1] As Of December 31, 2022 (Series F NPP132) | Inception Date: August 5, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	Inception
Fund	-3.7%	-23.4%	1.8%	-1.5%	-23.4%	1.5%	3.9%	6.5%
MSCI World IMI Core Real Estate NR (CAD)	-2.9%	-20.2%	5.5%	-1.0%	-20.2%	-3.3%	1.5%	2.4%

With the traditional positive seasonality failing to materialize in December, 2022 will go down in history as a miserable year for both equity and fixed income investors. Across the board, the performance stats are disappointing. In the US, the tech-heavy NASDAQ Composite declined 32.5%, the S&P 500 TR declined 18.1%, and Dow Jones Industrial Average declined 6.9%. Global equity markets weren't much better, with the S&P Global 1200 TR (in CAD) down 10.8%. Canadian equity investors suffered less than most, given the relatively hefty weighting of the oil & gas sector, with the S&P/TSX Composite TR down "only" 5.8% as the S&P/TSX Energy TR sub-sector gained 30.3%. In a balanced portfolio, the offset to equity weakness is usually fixed income strength but even the Bloomberg Barclays Global Aggregate bond index declined 16.3%, with the Bloomberg Barclays US Aggregate down 13.0% and the Bloomberg Barclays Canada Aggregate down 11.3%. If you weren't heavily overweight the Energy sector or cash, it was a challenging year to put it mildly.

Looking back at 2022, it felt like the news kept getting worse and worse as the year progressed. We started with the new Omicron Covid-19 variant, which led to widespread lockdowns in China due to the lack of an effective mRNA vaccine and low vaccination rates overall. We then had to face the Russian invasion of the Ukraine, with its horrific human toll and unimaginable suffering for those involved. From an economic perspective, the combination of these events led to massive supply chain disruptions and spiking energy costs. Consequently, the "inflation is transitory" narrative began to look overly optimistic, as inflation exploded higher with the US year-over-year CPI peaking at 9.1% in June. In response, the US Fed embarked on the fastest interest rate tightening cycle ever, hiking rates 425 bps from March to December 2022. Market participants sometimes refer to the phrase or mantra "don't fight the Fed", and this past year was a stern reminder of the impact of tightening monetary policy on various asset classes.

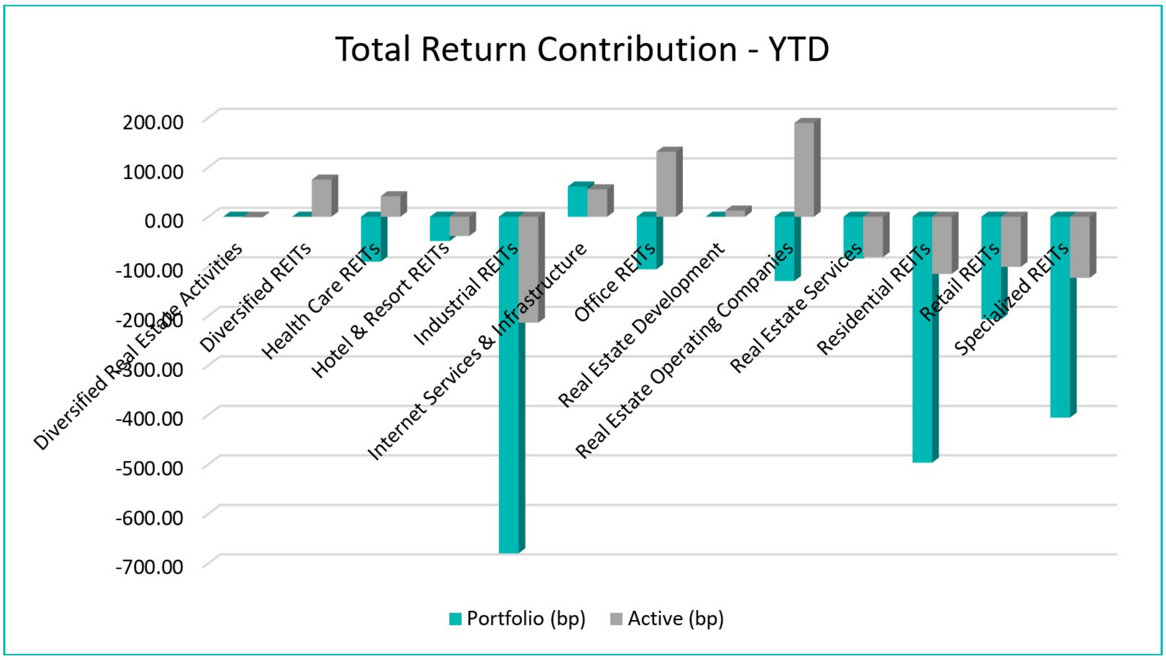
Importantly, higher interest rates percolate through the economy and the financial markets through various interconnected mechanisms. Overall growth slows as borrowing becomes more expensive, and consumer confidence weakens as job less mount. In turn, revenue growth slows or even declines, and margins weaken as pricing power softens and interest costs rise, resulting in multiple compression and negative earnings revisions. We can see how this played out in 2022, as the price to earnings multiple of the S&P 500 compressed from approximately 21x NTM estimates at the beginning of the year, bottomed at just 15x NTM estimates in October before rebounding to 17x NTM estimates today (according to Refinitiv). We have also seen a quite dramatic negative earning revision cycle, with 2023 S&P 500 earnings estimates declining from $255 at the end of Q1 2022 to $225 today, implying flat earnings growth this year, which may still prove to be optimistic once companies begin reporting 2022 financial results and potentially adjust guidance for 2023.

But despite the mayhem in the world, the difficult economic conditions, and the challenging equity markets, we can still find reasons to be optimistic going forward. First, back-to-back down years are very rare for the broad equity markets. In fact, the S&P 500 has only experienced two or more consecutive years of negative performance twice since 1957, once in 1973 to 1974 and once again in 2001 to 2003. Further, if we examine the 18 years of negative performance (including 2022), we can observe that the market has rebounded 14 times the subsequent year, a win rate of approximately 80% and an average gain of 15% (according to Macrotrends.net). Second, several academic studies have shown almost no correlation between earnings growth and equity market returns. Instead, we are focused on watching for the end of the negative earnings revision cycle as expectations reset to realistic levels. Finally, we are looking for the Fed to pause monetary tightening in 2023, with perhaps two more hikes of 25 bps each, reaching a terminal Fed funds rate of 5.0%, possibly as soon as March or May. We may not see a pivot to easing monetary policy in 2023 but we thank that a pause would be supportive enough for equity valuations.

To summarize our outlook, in an environment of moderating inflation but slowing growth through 2023, 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.

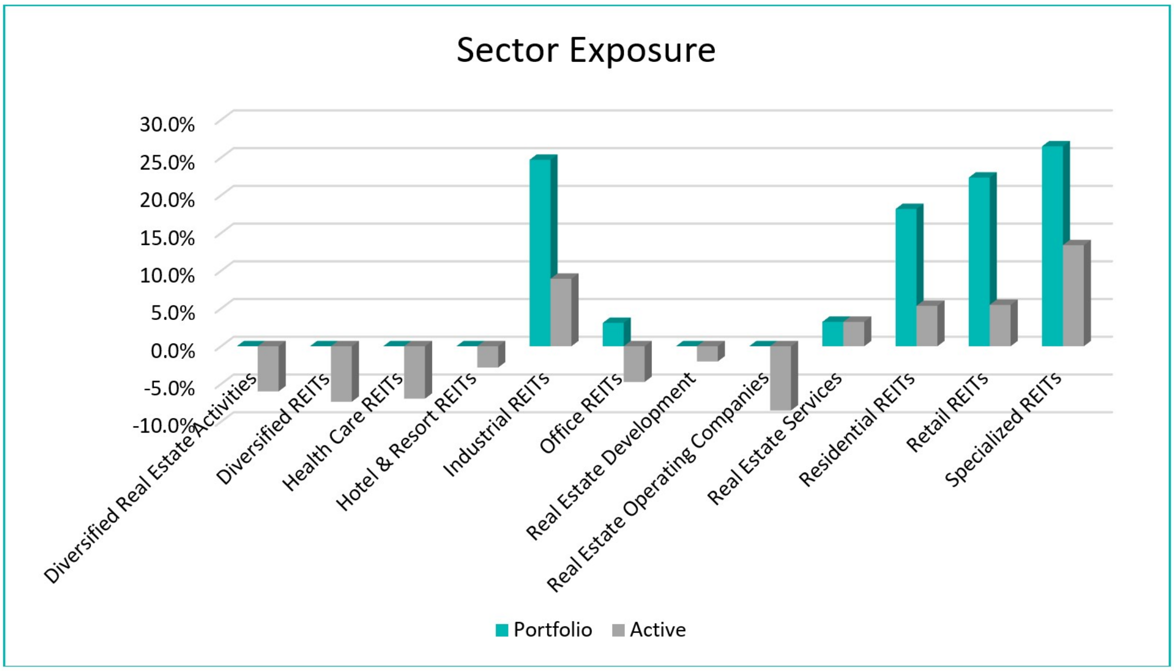
Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included only Internet Services & Infrastructure (+61 bps) while top detractors by sub-industry included Industrial REITs (-680 bps), Residential REITs (-497 bps) and Specialized REITs (-406 bps) on an absolute basis.

On a relative basis, positive return contributions from the Real Estate Operating Companies (+189 bps), Office REITs (+136 bps) and Diversified REITs (+62 bps) sub-industries were offset by negative contributions from the Industrial REITs (-211 bps), Specialized REITs (-123 bps) and Residential REITs (-115 bps) sub-industries.



Source: Ninepoint Partners

We are currently overweight Specialized REITs, Industrial REITs, and Retail REITs while underweight Real Estate Operating Companies, Diversified REITs, and Health Care REITs. Given the global slowdown 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 December 31, 2022 with the top 10 holdings accounting for approximately 36.7% of the fund. Over the prior fiscal year, 19 out of our 30 holdings have announced a dividend increase, with an average hike of 9.0% (median hike of 3.1%). 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 December 31, 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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