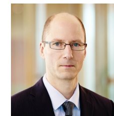
Ninepoint Global Real Estate Fund

August 2022 Commentary



Jeff Sayer, CFA
Vice President, Portfolio Manager

Year-to-date to August 31, the Ninepoint Global Real Estate Fund generated a total return of -18.53% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of -17.35%. For the month, the Fund generated a total return of -2.66% while the Index generated a total return of -4.22%.

NINEPOINT GLOBAL REAL ESTATE FUND - COMPOUNDED RETURNS[1] AS OF AUGUST 31, 2022 (SERIES F NPP132) | INCEPTION DATE: AUGUST 5, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	Inception
Fund	-2.7%	-18.5%	-2.3%	-7.0%	-10.3%	3.8%	6.8%	7.7%
MSCI World IMI Core Real Estate NR (CAD)	-4.2%	-17.4%	-4.7%	-10.5%	-14.0%	-1.6%	2.8%	3.0%

After a nice summer rally from the June lows, with the S&P 500 rallying just under 20%, the market started rolling over by mid-August and the S&P 500 closed the month down approximately 8.5% from the intra month highs. Given the number of cross currents in the markets today, it is tough to find a concrete explanation for the moves, other than sentiment was likely horribly negative at the lows and likely overly optimistic at the highs. Investor positioning reflected this dynamic and the thin trading liquidity during the quiet summer months probably amplified some of the swings.

However, we would suggest that the thesis that the two consecutive negative GDP prints in Q1 and Q2 would allow the Fed to pause the tightening cycle earlier than expected or even “pivot” to interest rate cuts by early-to-mid 2023 was unrealistic. Chairman Powell essentially reaffirmed the Federal Open Market Committee’s firm commitment to price stability during his speech at the most recent Jackson Hole conference. The language was blunt and to the point: “Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain.” Unsurprising, the equity markets did not like hearing the message so clearly articulated and continued to slide into September.

Therefore, the risks of a monetary policy-induced, cyclical recession are rising since inflation continues to remain elevated. Looking at inflation, the most recent CPI report was unchanged in July (released on August 10) but over the last 12 months, the index increased 8.5%. The core CPI (all items less food and energy) rose 0.3% in July, a slower increase than in April, May and June but increased 5.9% year over year, still an uncomfortable level. Thankfully, weekly average gasoline

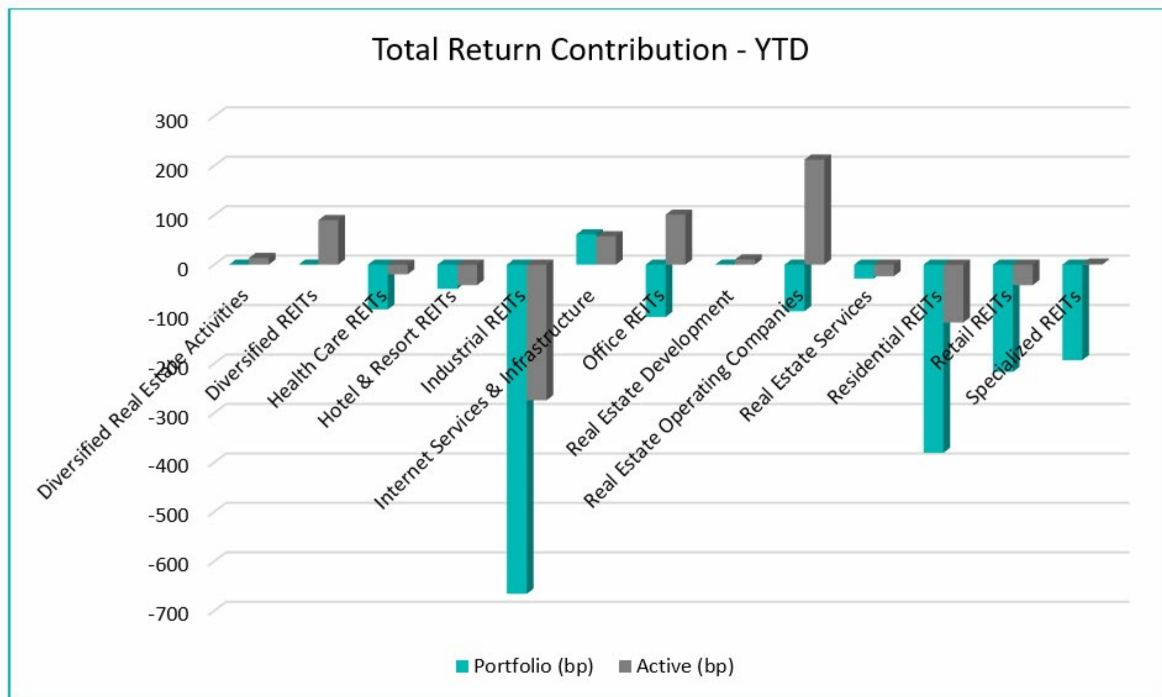
prices have declined approximately 25% from all-time highs, which at least provides some meaningful relief to the consumer. But the futures curve is currently pricing additional hikes at the September, November, and December FOMC meetings, implying a Fed funds rate of approximately 3.75% by December. The probability of monetary policy easing in 2023, once suggesting almost 50 bps worth of cuts, has now almost entirely been priced out.

Despite the fear of an impending recession, the economic data has remained remarkably resilient. For Q1 2022, the actual EPS growth rate was 4.4% according to S&P Global and for Q2, the blended EPS growth rate (with >99% of the S&P 500 companies having reported actual results) was 6.3% according to FactSet. Encouragingly, earnings estimates have been stable at around $230 for 2022 and $245 for 2023 but, admittedly, the September conference season does provide an opportunity to reset expectations. But importantly, the labour market remains solid, with the August non-farm payroll report indicating the creation of 315,000 new jobs, according to the US Bureau of Labor Statistics. Some of the details of the report were supportive of the "peak-inflation narrative", because although the unemployment rate ticked up to 3.7% from 3.5%, the labour force participation rate improved by 0.3% over the month (increasing slack in the jobs market should reduce the risk of a wage-price spiral and an even more aggressive response from the Fed). Perhaps the equity markets can best be described as oscillating between balancing decent but backward-looking data today with the threat of potential weakness tomorrow, trying to weigh soft-landing versus recession valuation scenarios.

So, given the incredible amount of noise, we are focused on watching for either the negative earning revision cycle to the bottom or a Fed pause to signal the eventual inflection toward a return to economic growth. 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.

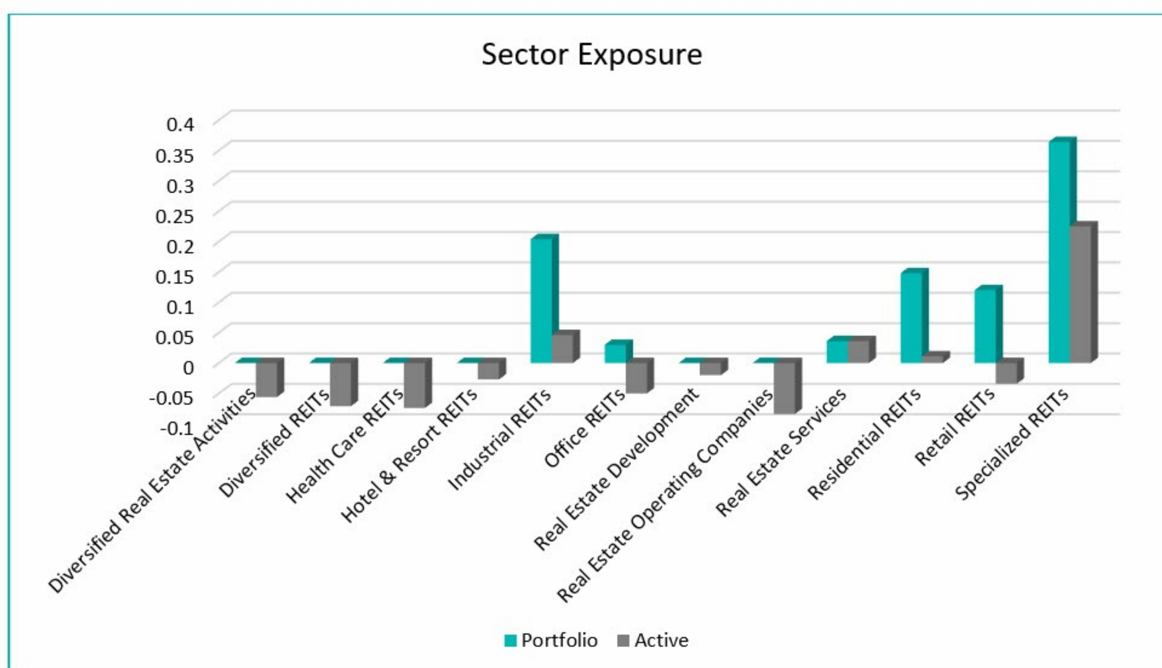
Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included only Internet Services & Infrastructure (+61 bps) while top detractors by sub-industry included Industrial REITs (-666 bps), Residential REITs (-381 bps) and Retail REITs (-217 bps) on an absolute basis.

On a relative basis, positive return contributions from the Real Estate Operating Companies (+212 bps), Office REITs (+101 bps) and Diversified REITs (+72bps) sub-industries were offset by negative contributions from the Industrial REITs (-272 bps), Residential REITs (-115bps) and Retail REITs (-42 bps) sub-industries.



Source: Ninepoint Partners

We are currently overweight Specialized REITs, Industrial REITs and Real Estate Services while underweight Real Estate Operating Companies, Health Care REITs and Diversified REITs. Although the US economy has posted two consecutive quarters of negative GDP growth (meeting the technical definition of a recession), corporate earnings and the labour market have remained resilient. But with the US Federal Reserve clearly committed to regaining control of inflation (even at the short-term expense of the GDP growth and some pain for workers), we have been focused on high quality REITs with the greatest potential for revenue and FFO growth. We have been able to find several attractive investment opportunities in the Specialized REITs and Industrial REITs sub-industries, and we are carefully watching for either the negative earnings revision cycle to bottom or a Fed pause to signal that global equity markets can move sustainably higher once again.



Source: Ninepoint Partners

The Ninepoint Global Real Estate Fund was concentrated in 28 positions as at August 31, 2022 with the top 10 holdings accounting for approximately 36.5% of the fund. Over the prior fiscal year, 19 out of our 28 holdings have announced a dividend increase, with an average hike of 13.3% (median hike of 3.8%). 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 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 August 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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