



# Ninepoint Global Real Estate Fund

## January 2022 Commentary

Year-to-date to January 31, the Ninepoint Global Real Estate Fund generated a total return of -8.63% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of -5.08. After a solid 2021, the broad equity markets suffered a terrible start to 2022, with the S&P 500 having its worst month since March 2020 (coinciding with peak fear of the Covid-19 pandemic) at -5.2% on a total return basis and the Nasdaq composite having its second worst January on record (ranking only behind January 2008) at -9.0% on a total return basis.



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

We've talked about the drivers of volatility in the late-November to December period in prior commentaries. The trading wobble was triggered by the identification and rapid spread of the Covid-19 Omicron variant and the hawkish "Powell Pivot" during testimony before the Senate Banking Committee, however equities experienced a solid seasonal rally to end the year. An unwillingness to sell winners (and face a tax hit) likely provided a strong tailwind but sellers began to hit bids almost immediately in January, quickly reversing December's gains. The January correction was significant and, looking at the S&P 500 specifically, the forward earnings multiple derated back to pre-pandemic levels of approximately 20x from a high of approximately 24x in 2021.

Investors seemed to suddenly internalize that the Fed was taking the threat of inflation seriously and a cycle of interest rate hikes was on the horizon. Notably, the December US CPI print, released January 15th, indicated that prices rose 7.0% over the prior twelve months (and ex-food and energy increased 5.5% over the prior year). This was the highest headline inflation reading since June 1982 and the highest core reading since February 1991. So, although the Fed's official statement and dot plot released after the December 15th FOMC meeting moved in line with market expectations (asset purchases were tapered by \$30 billion per month from \$15 billion per month and the number of expected rate hikes moved from two to three in both 2022 and 2023), market expectations became even more hawkish in January. At peak fear, implied interest rate probabilities suggested at least five interest rate hikes of 25 bps each in 2022 and discussions started about the potential for a 50 bps hike to start the cycle in conjunction with immediate quantitative tightening.

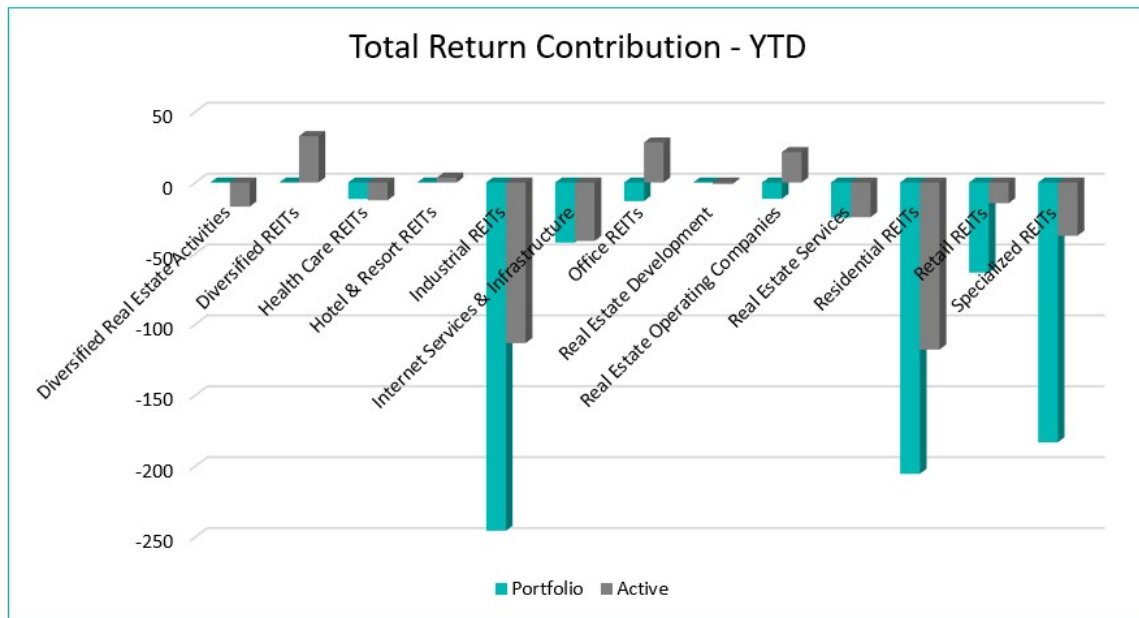
From our perspective, we think that fears related to an aggressive interest rate cycle will prove to be unfounded. Admittedly, every FOMC meeting in 2022 should be expected to be "live" but we are still reasonably confident that the Fed will continue to be data dependent. Further, we are cognizant that this cycle is tied to the real threat of inflation as opposed to recent interest rate cycles, which were primarily driven by the desire to normalize policy after emergency measures. But, if inflation readings began to moderate (trending toward normal) and the economy begins to decelerate (trending toward normal) as inventory levels and consumption patterns normalize, we think that there will be justification to slow the pace of rate hikes by mid-year and reassess the path of future rate hikes.

If this scenario plays out and the pace of interest rate hikes slows relative to expectations, history has shown that the equity markets can continue to rally through a period of rising interest rates. It is only when the yield curve inverts, and the Fed ends the tightening cycle that we need to prepare for a downturn. Although investors should expect choppier performance throughout the coming year, especially leading up to and coming out of the initial interest rate hike, with long-term interest rates still below 2.0% and consensus earnings growth of 10% in 2022 (according to FactSet), 2022 should be another year of positive returns for the broad equity markets, irrespective of the difficult January.

After a fantastic December, there wasn't a single positive contributor to the year-to-date performance of the

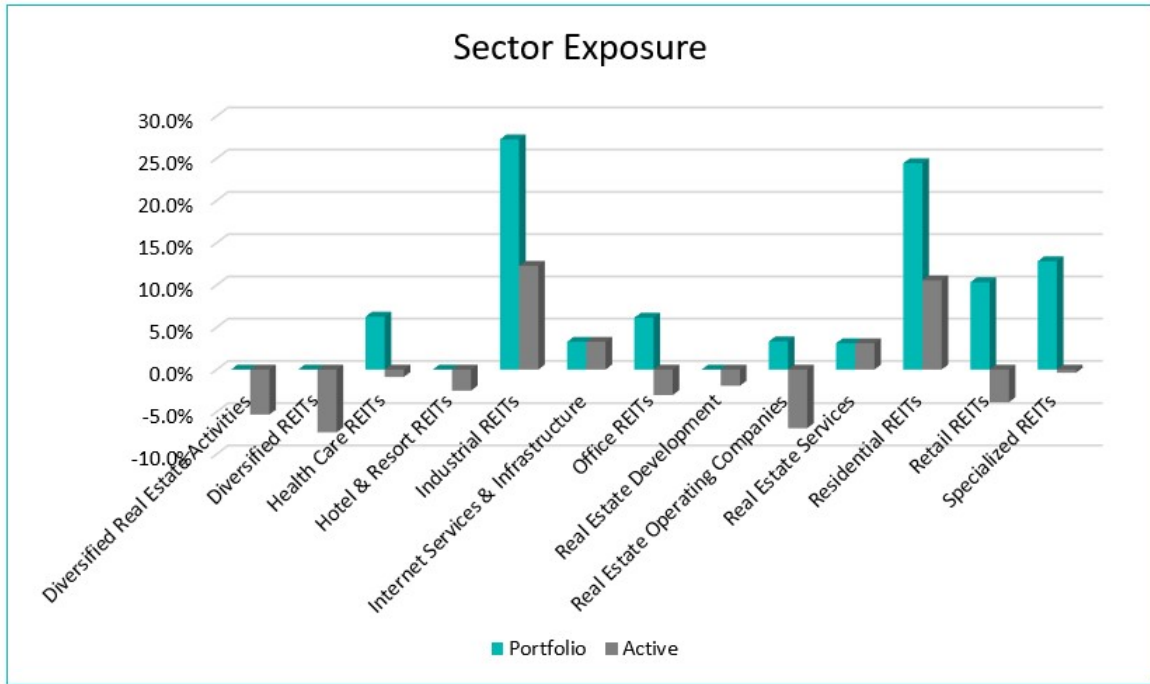
Ninepoint Global Real Estate Fund by sub-industry while top detractors by sub-industry included Industrial REITs (-274 bps), Residential REITs (-207 bps) and Specialized REITs (-172 bps) on an absolute basis.

On a relative basis, positive return contributions from the Diversified REITs (+31 bps), Office REITs (+28 bps) and Real Estate Operating Companies (+21 bps) sub-industries were offset by negative contributions from the Residential REITs (-120 bps), Industrial REITs (-141 bps) and Internet Services and Infrastructure (-33 bps) sub-industries.



Source: Ninepoint Partners

We are currently overweight Industrial REITs, Residential REITs and Internet Services & Infrastructure while underweight Diversified REITs, Real Estate Operating Companies and Diversified Real Estate Activities. In 2021, sub-industry allocation decisions were the key to outperformance in the Real Estate sector and we expect this dynamic to continue into 2022. We believe the January correction of high quality, high growth but high valuation REITs offers an attractive opportunity to add to existing holdings of long-term, secular winners.



Source: Ninepoint Partners

The Ninepoint Global Real Estate Fund was concentrated in 30 positions as at January 31, 2022 with the top 10 holdings accounting for approximately 36.5% of the fund. Over the prior fiscal year, 22 out of our 30 holdings have announced a dividend increase, with an average hike of 10.1% (median hike of 4.5%). 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<sup>1</sup> AS OF JANUARY 31, 2022 (SERIES F NPP132) | INCEPTION DATE: AUGUST 5, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	-8.6%	-8.6%	-0.2%	3.5%	26.3%	12.0%	10.9%	10.4%
MSCI World IMI Core Real Estate NR (CAD)	-5.1%	-5.1%	0.7%	1.5%	19.4%	5.6%	6.3%	5.5%

<sup>1</sup>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 January 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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