# Ninepoint Global Real Estate Fund

## October 2022 Commentary

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

Year-to-date to October 31, the Ninepoint Global Real Estate Fund generated a total return of -23.70% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of -22.66%. For the month, the Fund generated a total return of 1.40% while the Index generated a total return of 2.25%.

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

| | 1M | YTD | 3M | 6M | 1YR | 3YR | 5YR | Inception |
|---|---|---|---|---|---|---|---|---|
| Fund | 1.4% | -23.7% | -8.8% | -15.4% | -16.7% | 0.5% | 4.2% | 6.6% |
| MSCI World IMI Core Real Estate NR (CAD) | 2.3% | -22.7% | -10.4% | -15.7% | -17.9% | -4.9% | 1.0% | 2.0% |

This year has been dominated by the “macro-trade” with the Fed hiking interest rates to fight inflation before it becomes entrenched. The real question that we have been trying to answer is “what’s the terminal rate?”; investors are essentially trying to figure out the correct P/E multiple to put on forward earnings. On November 2, 2022. the Fed hiked another 75 bps (as expected) and although the statement was relatively dovish, it was followed by a quite hawkish press conference. The forward curve is now suggesting a terminal rate of approximately 5.0% in 2023 before the Fed pauses for the cycle. But after six rate hikes this year (and four 75 bps hikes in a row), the Fed is likely to step down to a 50 bps on December 14, 2022. So, the beginning of the taper and the end of the tightening cycle is probably near.

Looking at some of the other data, we can see that inflation is starting to roll over. According to US CPI data, gasoline prices, used car prices, apparel prices and medical costs are down sequentially. Redfin (a US-based residential brokerage) recently reported that rents declined 2.5% in September. The last piece of the puzzle to tame inflation will be (unfortunately) job loss and we have already seen some of the biggest tech companies freezing hiring or even cutting employees.

Further, PMIs are approaching contraction levels, with the US manufacturing ISM at 50.2% and the US services ISM at 54.4%. Finally, after remaining surprisingly strong through much of the year, S&P 500 forward earnings estimates have fallen from $255 at the start of the year to $232 today, a decline of almost 10% (the expectations reset is positive in terms of sentiment). Importantly, based on history, markets tend to bottom about six months before the economic data & the earnings estimates trough and the recovery from a recession begins.

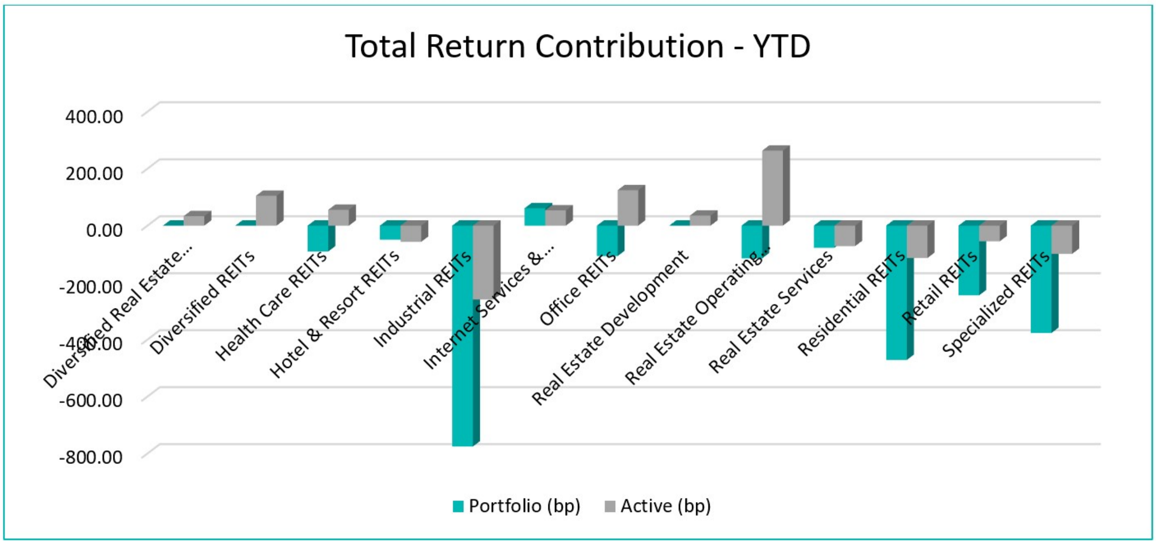
Thankfully, signs that the broader markets are finding a bottom exist now. The S&P seems to be stabilizing at the 200-week moving average (around 3,600), which would represent about 15.5x 2023 earnings. Currently, we are trading at about 16x 2023 earnings, which has proven to be a good spot to deploy capital, excluding the 2008/2009 global financial crisis and the 2020 Covid-19 lockdowns. Unless something happens that is materially worse than either of these two events, investors with a long-term time horizon should be looking for opportunities. Reassuringly, after double bottoming in June and October, the internals of the market have improved, with 40% of stocks hitting new 52-week lows in June but just over 30% hitting new 52-week lows in October.

Having said all of that, we should look beyond the broader indexes. Many of the largest market-cap companies are still trading at elevated valuations, both in absolute and relative terms. Further, the leaders over the next decade are unlikely to be the leaders of past cycles. In an environment of moderate inflation and 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 strategies.

We remained focused on watching for either the negative earning revision cycle to bottom or a Fed pause to signal the 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.

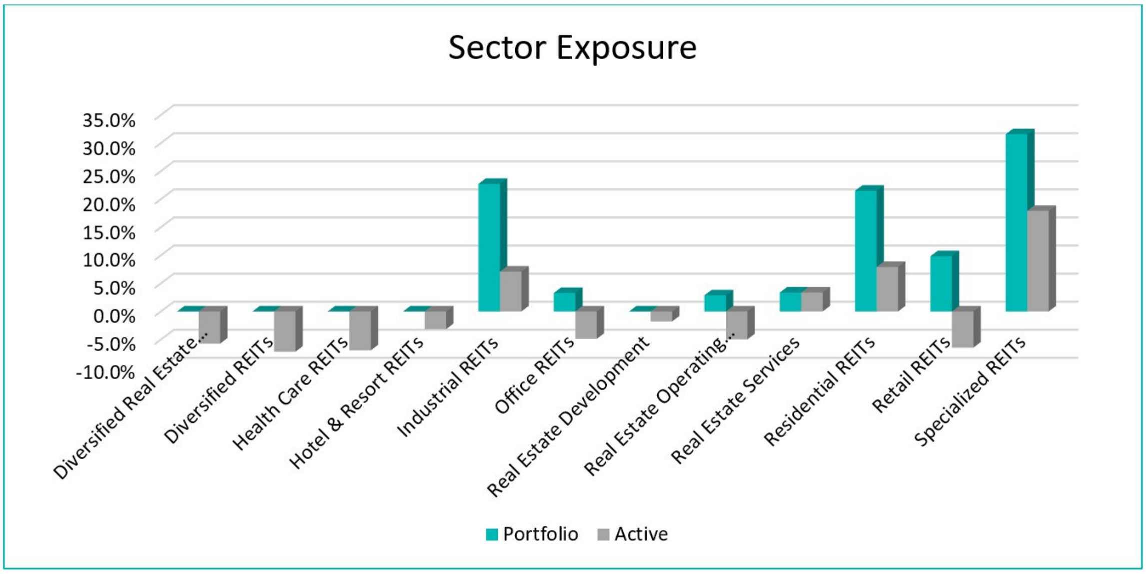
Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included only Internet Services & Infrastructure (+61 bps) while top detractors by sub-industry included Industrial REITs (-775 bps), Residential REITs (-471 bps) and Specialized REITs (-377 bps) on an absolute basis.

On a relative basis, positive return contributions from the Real Estate Operating Companies (+263 bps), Office REITs (+124 bps) and Diversified REITs (+105 bps) sub-industries were offset by negative contributions from the Industrial REITs (-259 bps), Residential REITs (-114 bps) and Specialized REITs (-99 bps) sub-industries.




Source: Ninepoint Partners

We are currently overweight Specialized REITs, Residential REITs, and Industrial REITs while underweight Diversified REITs, Health Care REITs, and Retail REITs. With signs of a global slowdown materializing and the US Federal Reserve committed to regaining control of inflation, we have been focused on high quality REITs with the greatest potential for consistent revenue and FFO growth.




Source: Ninepoint Partners

Given the correction across the Real Estate sector year-to-date, we are much more comfortable with valuations today on an absolute and relative basis. Recently, 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 the global equity markets can move sustainably higher.

The Ninepoint Global Real Estate Fund was concentrated in 28 positions as at October 31, 2022 with the top 10 holdings accounting for approximately 39.7% of the fund. Over the prior fiscal year, 18 out of our 28 holdings have announced a dividend increase, with an average hike of 9.2% (median hike of 3.7%). 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 October 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

**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.**



Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540