Ninepoint Global Real Estate Fund

March 2023 Commentary

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Year-to-date to March 31, the Ninepoint Global Real Estate Fund generated a total return of 4.45% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of 0.61%. For the month, the Fund generated a total return of -2.44% while the Index generated a total return of -3.82%.

Ninepoint Global Real Estate Fund - Compounded Returns[1] As of March 31, 2023 (Series F NPP132) | Inception Date: August 5, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	Inception
Fund	-2.4%	4.4%	4.4%	6.3%	-12.2%	6.3%	5.1%	6.8%
MSCI World IMI Core Real Estate NR (CAD)	-3.8%	0.6%	0.6%	-15.4%	4.6%	1.9%	5.9%	2.4%

It took 475 basis points of hikes from March 2022 to March 2023 (one of the fastest tightening cycles in the past forty years) before the Fed finally broke something in the financial system. The collapse of Silicon Valley Bank, the second largest bank failure in US history, has been well documented. Essentially a classic bank run triggered by a loss of confidence and accelerated by the ease of electronic fund transfers, the situation exposed management's inability to protect against an asset/liability duration mismatch in a rapidly rising interest rate environment. Note that this is very different than what occurred during the 2008/2009 credit crisis (when the quality of highly leveraged financial assets was called into question) and therefore we don't foresee widespread contagion or systemic risk. But with more than four thousand regional banks in the US (according to the FDIC), we are concerned about the impact of more stringent regulations and tighter lending standards on future economic growth.

As we get set to start the Q1 2023 earnings season, FactSet Research has provided some interesting information regarding the cadence of the year ahead. In Q1 2023, earnings are expected to decline by 6.8%, the largest dip since Q2 2020 (the depths of the Covid-19 lockdowns) and the second straight quarter of negative earnings growth. Earnings are then expected to decline by 4.6% in Q2 2023, before rebounding by 2.1% in Q3 2023 and 9.0% in Q4 2023. Because revenue growth is expected to be flat to slightly positive in each quarter of 2023, margin pressures (driven by the rising cost of raw materials, supply chain inefficiencies, increasing labour costs and other factors) should be assumed to persist through the first half of 2023. On an annualized basis, S&P 500 estimates for 2023 look to be stabilizing around $220 and for 2024 look to be stabilizing around $235, implying that the current year will likely be the trough of the cycle.

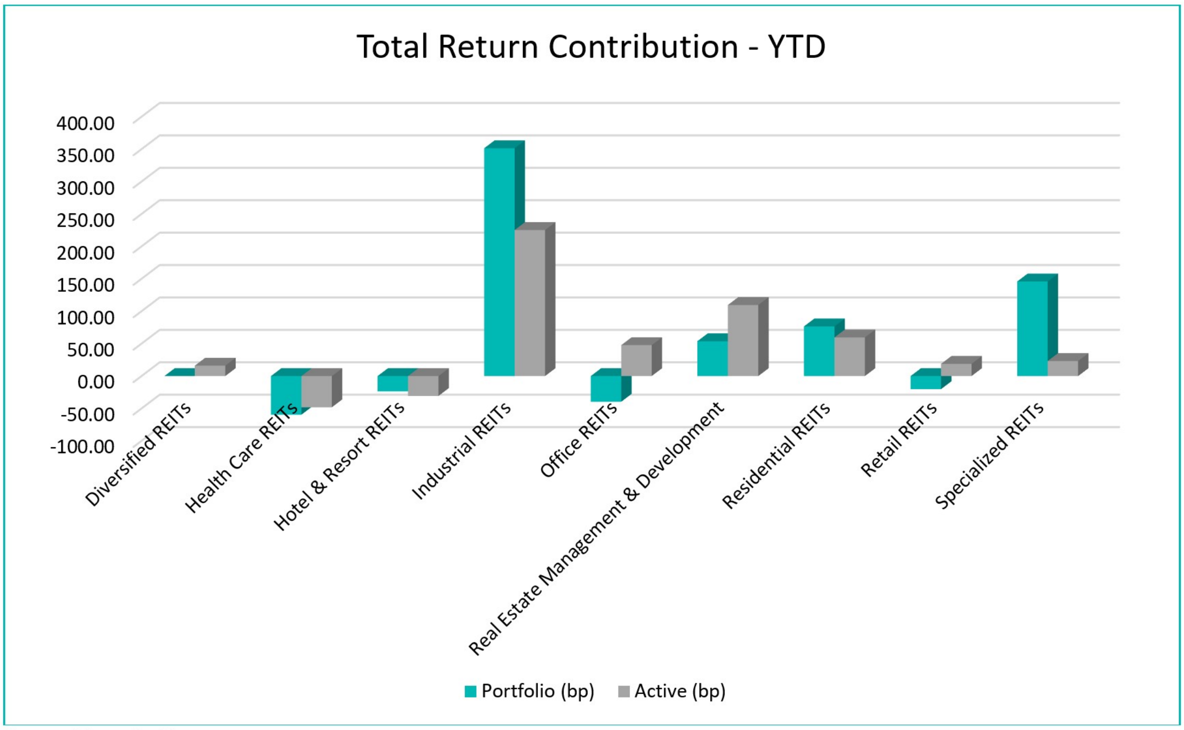
Of course, investors still need to contend with tightening monetary policy and financial conditions (some have estimated that the impact of the banking crisis is equivalent to an incremental 100 bps of rate hikes). Fortunately, inflation looks to have peaked in June 2022 at 9.1%, and has steadily trended lower, dropping to 6.0% in February (released on March 20). But the labour market has remained tight, with total nonfarm payrolls up by 236,00 in March while the unemployment rate remained at 3.5% (although the JOLTS did fall below 10 million in February). The key data points to watch before the next FOMC meeting on May 3 include the CPI, PPI, and retail sales numbers. These upcoming releases will likely determine if the Fed hikes again or finally goes on pause for the cycle.

Currently, market odds have been flip-flopping between hike and no hike scenarios, suggesting that the decision is extremely close. Given the signs of stress in the financial system, we personally doubt that the Fed will move much further and, although we don't expect a pivot to easing monetary policy in 2023, we think that a pause would be supportive for equities. However, we continue to believe that investors need to be careful about being whipsawed during what could be a volatile but rangebound market over the balance of 2023.

From our perspective, 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.

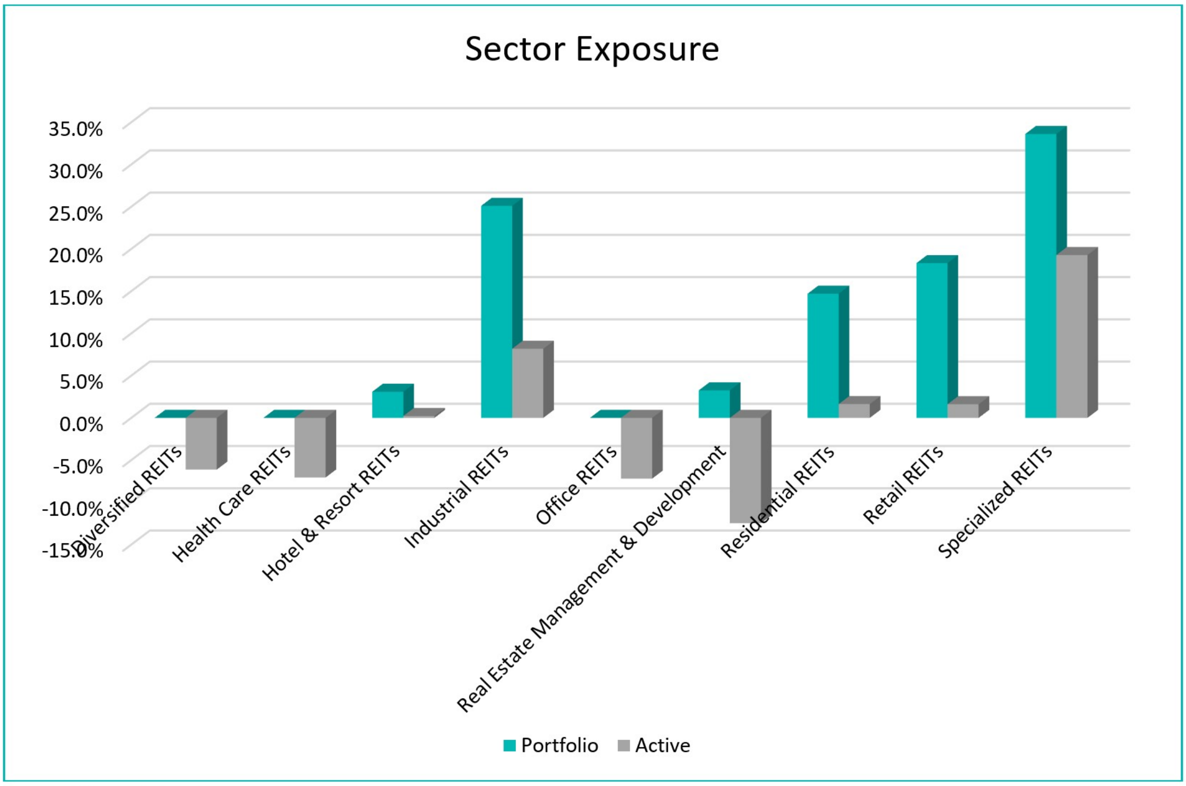
Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included Industrial REITs (+351 bps), Specialized REITs (+146 bps) and Residential REITs (+77 bps) while top detractors by sub-industry included Health Care REITs (-60 bps), Office REITs (-40 bps) and Hotel & Resort REITs (-24 bps) on an absolute basis.

On a relative basis, positive return contributions from the Industrial REITs (+225 bps), Real Estate Management & Development (+110 bps) and Residential REITs (+60 bps) sub-industries were offset by negative contributions from the Health Care REITs (-48 bps) and Hotel & Resort REITs (-31 bps) sub-industries.



Source: Ninepoint Partners

We are currently overweight Specialized REITs, Industrial REITs, and Residential REITs while underweight Real Estate Management & Development, Office REITs, and Health Care REITs. With the US Federal Reserve expected to pause interest rate hikes in 2023, we are carefully watching for perhaps the most highly anticipated downturn ever to play out before the next bull market begins. In the meantime, we remain focused on high quality, financially strong REITs that have demonstrated the ability to consistently generate revenue and cash flow growth through the cycle.



Source: Ninepoint Partners

The Ninepoint Global Real Estate Fund was concentrated in 30 positions as at March 31, 2023 with the top 10 holdings accounting for approximately 37.4% of the fund. Over the prior fiscal year, 20 out of our 30 holdings have announced a dividend increase, with an average hike of 12.7% (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

Effective February 7, 2017 the Sprott Global REIT & Property Equity Fund's name was changed to Sprott Global Real Estate Fund, subsequently on August 1, 2017 becoming Ninepoint Global Real Estate Fund.

[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 March 31, 2023; 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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