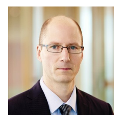
Ninepoint Global Real Estate Fund

August 2023 Commentary



Jeff Sayer, CFA
Vice President, Portfolio Manager

Summary

- Ninepoint Global Real Estate Fund had a YTD return of 0.63% as of August 31,compared to the MSCI World IMI Core Real Estate Index, which had a YTD return of 1.99%.
- In August, the Fund had a negative monthly return of -1.05%, while the Index generated a total return of -0.36%.
- Despite a strong final week, the month of August was a mildly disappointing one for investors.
- The primary culprit blamed for the weakness in equities was the sharp move in rates from 4.00% to 4.34% (reaching a 10-year high), which is generally correlated to P/E multiple compression, influenced by factors like the Bank of Japan's monetary policy shift, US sovereign debt downgrades, and rising inflation concerns.
- Q2 2023 earnings season for S&P 500 companies performed better than expected, with a 4.1% YoY earnings decline, possibly marking the earnings trough for the cycle.
- The fund was concentrated in 28 positions. Over the prior fiscal year, 16 out of our 28 holdings have announced a dividend increase, with an average hike of 10.4% (median hike of 1.8%).

Monthly Update

Year-to-date to August 31, the Ninepoint Global Real Estate Fund generated a total return of 0.63% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of 1.99%. For the month, the Fund generated a total return of -1.05% while the Index generated a total return of -0.36%.

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

	1M	YTD	3M	6M	1YR	3YR	5YR	Inception
Fund	-1.1%	0.6%	0.0%	-6.0%	-5.4%	0.9%	3.1%	6.0%
MSCI World IMI Core Real Estate NR (CAD)	-0.4%	2.0%	3.5%	-2.5%	-1.5%	2.9%	0.7%	2.5%

Despite a strong final week, the month of August was a mildly disappointing one for investors. Although the S&P 500 declined 1.8%, the intra month peak to trough drawdown was approximately 5.5%, which was really nothing more than a typical correction considering the year-to-date rally in tech stocks. During the month, the Energy sector was the standout performer but weakness in the Consumer Discretionary, Utilities and Financials sectors dragged the index lower. The primary culprit blamed for the weakness in equities was the sharp move in rates from 4.00% to 4.34%

(reaching a 10-year high), which is generally correlated to P/E multiple compression.

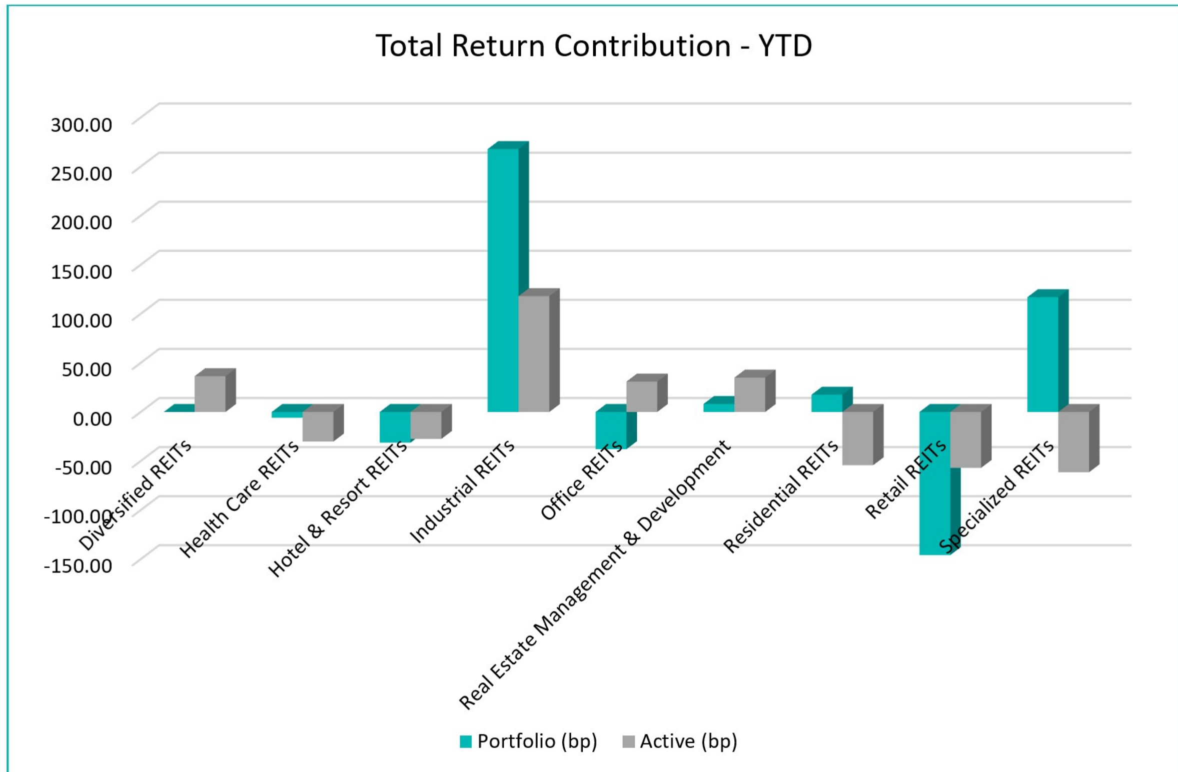
But why did rates move so sharply? At the very end of July, the announcement from the Bank of Japan shifting monetary policy away from strict yield curve control likely started the trend higher around the world. The Fitch Ratings downgrade of US sovereign debt from AAA to AA+ (justified with the statement: "The rating downgrade of the United States reflects the expected fiscal deterioration over the next three years, a high and growing general government debt burden, and the erosion of governance relative to 'AA' and 'AAA' rated peers over the last two decades that has manifested in repeated debt limit standoffs and last-minute resolutions.") was not great news. The Moody's credit downgrade of ten US-based small and mid-sized banks (with at least six others placed on negative watch) also wasn't helpful. Further, monthly CPI data for July (released on August 10th) was unchanged from June at +0.2% but ticked up on an annualized basis to 3.2% in July, slightly more than the 3.0% recorded in June. Fed speakers continued to talk tough on inflation and the Chairman Powell's speech at the Jackson Hole Economic Symposium was almost a carbon copy of his most recent FOMC presser. A lot of noise but thankfully nothing to suggest that a deep recession, characterized by plunging corporate profits and spiraling unemployment is imminent.

In fact, the Q2 2023 earnings season has essentially come to close (with over 99% of the S&P having reported results) and was much better than originally feared. Initial expectations were for a decline of somewhere between 8% and 9%, but 79% of S&P 500 companies reported a positive EPS surprise and 64% of S&P 500 companies reported a positive revenue surprise (according to FactSet). For Q2, the blended year-over-year earnings decline for the S&P 500 was 4.1%, the third straight quarter of negative earnings growth but likely the bottom for the cycle. If the Q2 proves to be the earnings trough (consistent with current consensus estimates), we could see a more diversified group of stocks play "catch-up" even if the headline indexes move sideways or drift lower, as earnings growth reaccelerates. In this environment, we are searching for companies that have been able to post solid earnings growth but still trade at acceptable valuations. Dividend growth companies and real asset strategies look poised to benefit from any rotation out of the high-multiple, technology winners of 2023.

In an environment of moderating inflation but slowing growth through 2023 and into 2024, the most important drivers of investment performance will likely be valuation, balance sheet strength and the ability to consistently generate cash flow and earnings. Should the year-to-date rally broaden beyond anything tied to the artificial intelligence investment theme, a rotation into high quality, dividend growers would result in better relative performance from our strategies going forward. 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.

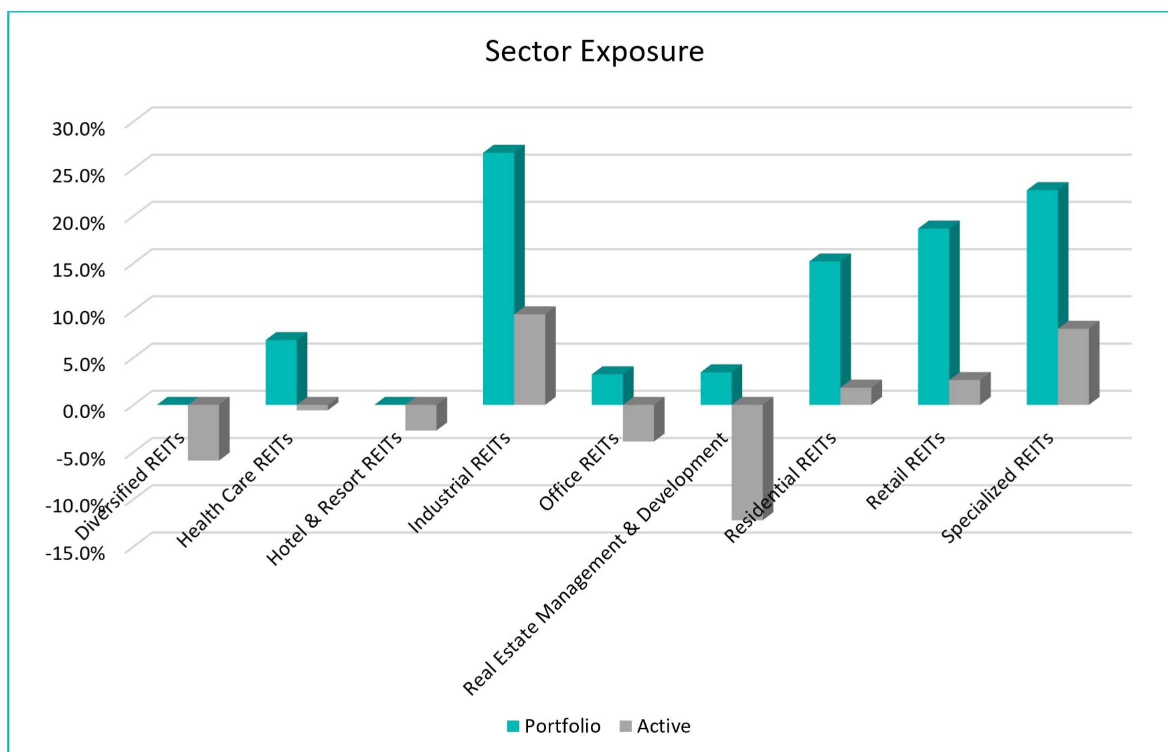
Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included Industrial REITs (+268 bps), Specialized REITs (+117 bps) and Residential REITs (+18 bps) while top detractors by sub-industry included Retail REITs (-146 bps), Office REITs (-38 bps) and Hotel & Resort REITs (-31 bps) on an absolute basis.

On a relative basis, positive return contributions from the Industrial REITs (+118 bps), Diversified REITs (+36 bps) and Real Estate Management & Development REITs (+35 bps) sub-industries were offset by negative contributions from the Specialized REITs (-61 bps), Retail REITs (-57 bps) and Residential REITs (-54 bps) sub-industries.



Source: Ninepoint Partners

We are currently overweight Industrial REITs, Specialized REITs, and Retail REITs while underweight Real Estate Management & Development, Diversified REITs, and Office REITs. With the probability of a future interest rate hike below 50% for each of the three remaining FOMC meetings in 2023 according to Refinitiv, interest rate hikes are likely done for the cycle. While we are cognizant of the lagged impact of 525 basis points of monetary tightening since March 2022 and aware of the potential for seasonal weakness in September/October, we are comfortable with our portfolio positioning today. 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 28 positions as at August 31, 2023 with the top 10 holdings accounting for approximately 40.5% of the fund. Over the prior fiscal year, 16 out of our 28 holdings have announced a dividend increase, with an average hike of 10.4% (median hike of 1.8%). 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

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 August 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.

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, preferred stock risk; real estate risk; regulatory risk; securities lending, repurchase and reverse purchase transaction risk; series risk; short selling risk; specific issuer risk; substantial securityholfer risk; tax risk.

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