2023 Mid-Year Update
Ninepoint Real Asset Strategies

Hello, this is Jeff Sayer, Portfolio Manager of the Ninepoint Global Infrastructure Fund, and the Ninepoint Global Real Estate Fund. Welcome to our 2023 mid-year review.

The financial markets are rarely boring, and thus far in 2023, investors have had to deal with the lingering effects of the global pandemic, one of the fastest Fed tightening cycles in over forty years, the banking crisis culminating in the failure of several major regional banks, the debt ceiling negotiations, the ongoing debate over forward earnings expectations and the continuous struggle to correctly value those future earnings streams. Impressively, the NASDAQ is off to its best start in over 40 years, as investors have aggressively chased the artificial intelligence theme, with huge rallies in semiconductor manufacturers, wafer fab equipment manufacturers and the software companies that are the most likely to benefit from advancements in AI. Gains have been led by the Information Technology, Communication and Consumer Discretionary sectors and powered by seven stocks: NVIDIA, Meta Platforms, Tesla, Amazon, Alphabet, Apple, and Microsoft.

The performance disparity between the winners and losers is apparent when examining the various indexes. In the US, the tech-heavy NASDAQ Composite gained 32.3%, the S&P 500 TR gained 16.9%, and Dow Jones Industrial Average gained 4.9%. Global equity markets were also reasonably strong, with the S&P Global 1200 TR (in CAD) up 12.4%, given the significant weights of US mega-cap tech in the benchmark. Canadian equity investors realized more modest gains, because of the relatively hefty weighting of the Energy and Financials sectors, with the S&P/TSX Composite TR up only 5.7%. Essentially, if an investor wasn’t significantly overweight mega-cap tech, it has been a relatively disappointing six months.

Long-term investors still need to contend with the lagged impact of tighter monetary policy, including falling inflation, slowing growth, and rising unemployment, as we work through the final stages of the economic cycle. Thankfully, inflation looks to have peaked in June 2022 at 9.1%, and has steadily trended lower ever since (to 3.0% in June), but unemployment rates are now beginning to tick up (to 3.6% in June, compared to the low of 3.4% in April). Therefore, we continue to believe that we are at the very end of the tightening cycle, but we still don’t expect any rate cuts this year. Essentially, inflation readings would have to reaccelerate dramatically before any additional rate hikes or economic growth would have to decline significantly before any pivot to easier monetary policy.

Year-to-date to June 30th, the Ninepoint Global Infrastructure Fund generated a total return of -0.26% compared to the MSCI World Core Infrastructure Index, which generated a total return of -2.20%. Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund by sector included Industrials and Energy while top detractors by sector included Utilities, Real Estate and Communication on an absolute basis.

On a relative basis, positive return contributions from the Industrials, Real Estate and Energy sectors were offset by negative contributions from the Utilities and Communication sectors. In terms of stock specific performance, top contributors to the year-to-date performance included Quanta Services, Engie and Veolia while top detractors included Northland Power, Crown Castle, and NextEra Energy.

We are currently overweight the Industrials, Real Estate and Energy sectors, while underweight the Utilities sector. We continue to believe that the clean energy transition will be one of the biggest investment themes for many years ahead and infrastructure stands to be a clear beneficiary. Therefore, we are comfortable having exposure to both traditional energy and renewable energy investments given the importance of energy sustainability and security of supply around the world. We remain focused on high quality, dividend payers that have demonstrated the ability to consistently generate revenue and earnings growth through the cycle.

Year-to-date to June 30th, the Ninepoint Global Real Estate Fund generated a total return of 1.03% compared to the MSCI World IMI Core Real Estate Index, which generated a total return of -1.02%. Top contributors to the year-to-date performance of the Ninepoint Global Real Estate Fund by sub-industry included Industrial REITs, Residential REITs, and Specialized REITs while top detractors by sub-industry included Retail REITs, Office REITs, and Hotel & Resort REITs on an absolute basis.

On a relative basis, positive return contributions from the Industrial REITs, Real Estate Management & Development and Office REITs sub-industries were offset by negative contributions from the Specialized REITs, Health Care REITs, and Hotel & Resort REITs sub-industries. In terms of stock specific performance, top contributors to the year-to-date performance included Life Storage, Dream Industrial and Equinix while top detractors included Healthpeak Properties, SBA Communications, and Alexandria.

We are currently overweight Specialized REITs, Industrial REITs, and Residential REITs while underweight Real Estate Management & Development, Office REITs, and Diversified REITs. Because real estate has traditionally led most other asset classes coming out of an economic downturn, 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.

Given an investment environment characterized by falling inflation but slowing growth it is somewhat disappointing that infrastructure and real estate have underperformed relative to the broad indexes. Despite both asset classes offering a nice combination of inflation protection and income generation potential, investors have piled into the mega-cap technology trade at the expense of most other assets classes irrespective of valuations. However, the fundamentals of our underlying businesses have been steady, and the dividend yields remain attractive, so we should expect better relative performance from our holdings over the balance of the year. In the meantime, we will continue to apply our disciplined investment process, balancing valuation, earnings or cash flow growth and yield, in an effort to generate solid risk-adjusted returns over the cycle.

Once again, thank you for your time and support.

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