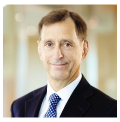
Ninepoint Fixed Income Strategy

March 2024 Commentary

*Monthly commentary discusses recent developments across the **Ninepoint Diversified Bond**, **Ninepoint Alternative Credit Opportunities** and **Ninepoint Credit Income Opportunities Funds**.*



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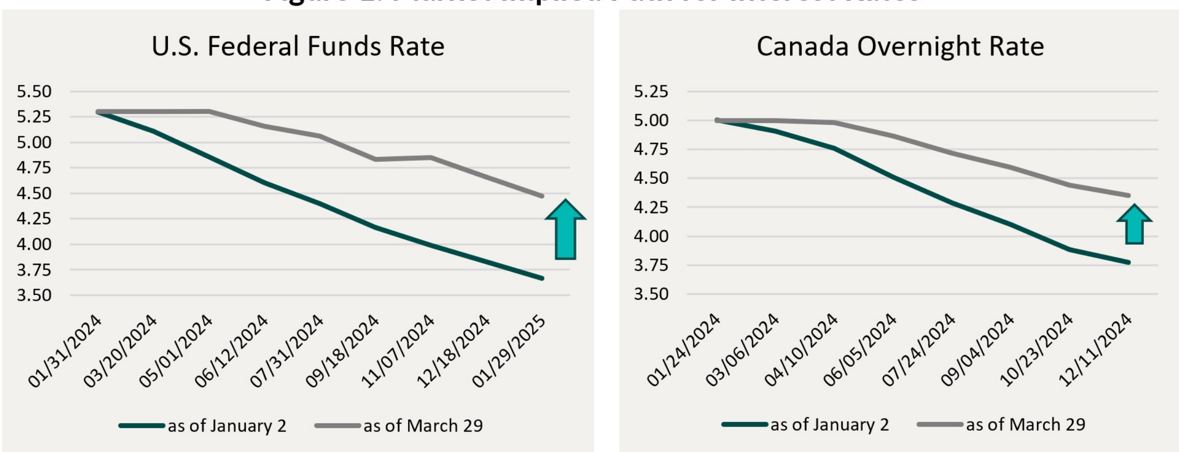
Summary

- North American Central Bankers are clearly advocating patience with interest rates.
- Stronger economic data (even in Canada) means there's no rush to cut rates.
- Services inflation remains sticky, and higher energy prices could drive headline inflation back up.
- We remain defensively positioned until more interesting opportunities arise.

Economics

After getting overly excited about rate cuts at the start of the year, market sentiment has now gone full circle, discounting fewer and a much later start to rate cuts (Figure 1).

Figure 1: Market Implied Path for Interest Rates



Source: Bloomberg

Both the Fed and BoC seem to agree, messaging in numerous speeches that it is still too soon to know with confidence if the recent improvement in economic activity and increase in inflation will be sustained. As we argued last month, services inflation remains too high for central bankers to bring overall inflation back to their 2% target in a timely fashion. Complicating their calculus even further, the recent increase in energy prices (WTI is over $85 a barrel as of the time of writing) risks increasing headline inflation even further in the months to come.

That leaves everyone, us included, waiting for the data to give us a sense of direction. So far this year, data has generally surprised mildly, and unevenly, to the upside (for example, the strong headline jobs gains in both countries in Jan and February, but an unexpected increase in unemployment). Even here in Canada, after showing no growth at all for most of last year, we had two strong months of GDP growth to start 2024. It has been a very mild winter, and some of this strength could be due to quirky seasonal adjustments. But overall the data has been better than we thought, and that means higher rates for longer. Risk assets are loving it, with equities close to all time highs and credit spreads back to their post pandemic lows. We continue to believe that the longer rates stay elevated, the more fragile the economy, and the more vulnerable it is to shocks. With credit priced to perfection, it is an easy decision for us to remain defensively positioned. In terms of interest rate risk, odds of further increases in rates are very low, but continued strong data could present upside risk to longer term rates. For now, we remain content to keep most of our rate exposure barbelled, with most of the portfolios exposed to 0-2 year rates (i.e. very little rate exposure), coupled with some long term government bond exposure (30 year) in case the economy flinches, necessitating deep and rapid rate cuts by central banks.

Credit

Canadian investment grade spreads took a breather in March after a strong start to the year. Spreads were flat on the month. For context, Canadian spreads remain 13bps tighter YTD, in line with US investment grade spreads (10bps tighter). The backdrop remains the same: risk assets continue to perform well while high all-in yields within corporate credit continues to attract capital. It should be no surprise that higher beta sectors continue to outperform more defensive sectors. Bank sub-debt (which we have been overweight for some time now) and REITs have been the star performers, while industrials, infrastructure, retail and utilities continue to lag (we own next to nothing within these sectors due to their generally rich valuations).

Even with the typical slower March (given Spring breaks), primary supply in Canada remained elevated. Canadian corporate issuance this past month clocked in at just shy of $13bln vs $8bln in 2023. This puts 2024Q1 issuance at $38bln in Canada, 60% ahead of this time last year. Even more impressive, 2024Q1 issuance is the second highest Q1 on record. As always, we use the primary market to deploy and recycle capital and this month was no different.

Individual fund commentary

Ninepoint Diversified Bond Fund

The fund performed well this past month (+0.88%), and in 2024Q1 more generally (+1.08% YTD). Despite elevated interest rate volatility, we have benefited from strong income generation and capital gains in our LRCN/hybrid bond positions.

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS[1] AS OF MARCH 31, 2024 (SERIES F NPP118) | INCEPTION DATE: AUGUST 5, 2010

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	Inception
Fund	0.9%	1.1%	1.1%	7.1%	5.2%	-0.7%	1.0%	2.3%	3.2%

There were no major changes to the fund's defensive posture, other than duration being tweaked a touch lower to now sit at 5.9 years (vs 6.5 years last month as we took advantage of the increase in long term rates). Average credit quality remains unchanged at BBB+. Nonetheless, at 7.5%, the portfolio's yield-to-maturity remains extremely compelling. The fund is mostly invested in shorter dated credit, so we will continue to have numerous maturities, which we use to source new opportunities, both in primary and secondary markets.

Speaking of opportunities, March was a very active month for Enbridge's Commercial Paper program, a hidden gem in the Canadian market given its strong credit quality, very short tenors, and extremely high yields (mid 5%s). We tend to use this program to allocate cash as we wait to deploy capital.

Speaking of which, we participated in 3 new issues this month, all with coupons north of 5%: SNC Lavalin (a potential rising star), Royal Bank sub-debt (one of the rare parts of the market that still has value), and First National (a rare issuer who is extremely misunderstood by the Canadian market, hence the >6% coupon). Our HY weight declined from 13% to 10% given a Brookfield Property Finance (BPY) maturity, while our short position in HY (used for credit hedging purposes) remains at -7%. We are no longer exposed to BPY in any of our strategies.

Ninepoint Diversified Bond Fund

	Limits	Dec 2017	Jun 2018	Dec 2018	Jun 2019	Dec 2019	June 2020	Dec 2020	June 2021	Dec 2021	June 2022	Dec 2022	March 2023	April. 2023	May 2023	June 2023	July 2023	August 2023	Sept 2023	Oct 2023	Nov 2023	Dec 2023	Jan 2024	Feb 2024	March 2024	Outlook
Government Bonds	100%	-2%	-4%	1%	22%	13%	9%	8%	2%	-7.0%	2%	1%	3%	3%	4%	5%	5%	5%	4%	5%	5%	5%	5%	5%	3%	↔
Investment Grade	80%	37%	66%	76%	58%	58%	80%	74%	76%	70%	65%	75%	67%	68%	74%	72%	76%	75%	76%	81%	80%	84%	89%	90%	95%	↔
High Yield	40%	32%	17%	13%	9%	6%	11%	11%	14%	18%	29%	23%	24%	24%	24%	25%	24%	24%	23%	20%	21%	15%	12%	13%	10%	↓
Emerging Market Governments	10%	0%	0%	0%	0%	0%	0%	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Preferred Equities	10%	6%	6%	2.5%	0%	0%	0%	4%	5%	1%	2%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Common Equities & ETFs	10%	0%	0%	1.5%	2.4%	0%	-6%	-2%	0%	0%	0%	0%	0%	-2%	-4%	-5%	-5%	-5%	-5%	-5%	-7%	-7%	-7%	-7%	-7%	↔
Derivatives	+/- 2.5%	-0.1%	-0.1%	0.0%	-0.2%	0.2%	0%	0%	0%	0%	3%	0%	0%	0%	0%	0%	0%	-1%	-2%	-3%	-2%	0%	-1%	-1%	-1%	N/A
Cash and Equivalents		28%	15%	6%	9%	22%	6%	5%	1%	14%	0%	0%	6%	7%	1%	3%	2%	2%	3%	2%	2%	2%	2%	0%	1%	↑
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Duration	1 to 8 years	2.4	2.3	2.4	5.4	4.3	5.9	5.3	4.5	2.9	2.4	3.4*	3.8*	3.8*	4.5*	4.3*	4.2*	4.7*	4.8*	4.5*	5.6*	5.3*	5.5*	6.5*	5.9*	↔
Spread Duration		-	-	2.9	2.3	3.0	4.1	3.9	5.4	5.1	4.3	3.2	2.5	2.3	2.1	1.8	1.7	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.6	↔
Unhedged FX Exposure	20%	0%	0%	0%	6%	3%	5%	6%	4%	0%	0%	0%	1%	1%	1%	1%	1%	1%	0%	-1%	1%	0%	0%	0%	0%	↔

Source: Ninepoint Partners

Ninepoint Alternative Credit Opportunities

Low interest rate exposure and solid income continue to benefit the fund, which returned 0.86% last month (2.38% YTD). Gains in Hybrids/LRCN more than offset our long-term government bond exposure.

NINEPOINT ALTERNATIVE CREDIT OPPORTUNITIES FUND - COMPOUNDED RETURNS[1] AS OF MARCH 31, 2024 (SERIES F NPP931) | INCEPTION DATE: APRIL 30, 2021

	1M	YTD	3M	6M	1YR	Inception
Fund	0.9%	2.4%	2.4%	7.3%	8.7%	0.6%

The portfolio's characteristics remained broadly unchanged month-over-month. Duration ended at 3.5 years (vs 3.4 years the month prior), yield-to-maturity of 8.6% (flat vs prior month), spread duration of 3.2 years (slightly up from 3.1 years) and leverage unchanged at 0.7x. We sold some short dated SNC Lavalin's to make room for their new issue. We also added to RY sub-debt at an attractive credit spread of 157 bps for a 5 year term. As mentioned last month, our high yield moved down on the month to 8% as our BPY maturity outweighed our SNC Lavalin purchase. Lastly, our short HY position (as a credit hedge) stayed at our target of -11%.

Ninepoint Alternative Credit Opportunities Fund

	Limits	June 2021	Sept. 2021	Dec. 2021	March 2022	June 2022	Sept. 2022	Dec. 2022	March 2023	April 2023	May 2023	June 2023	July 2023	August 2023	Sept 2023	Oct 2023	Nov 2023	Dec 2023	Jan 2024	Feb 2024	March 2024	Outlook
Government Bonds	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Investment Grade	100%	66%	44%	44%	51%	51%	53%	52%	52%	56%	63%	61%	66%	65%	68%	68%	69%	71%	75%	74%	72%	↑
High Yield	40%	32%	22%	29%	27%	28%	24%	19%	19%	17%	14%	14%	13%	14%	12%	10%	9%	9%	10%	12%	8%	↓
ABS	20%	4%	6%	7%	11%	15%	18%	23%	23%	23%	23%	23%	25%	24%	23%	23%	23%	19%	19%	20%	24%	↔
Loans	10%	0%	3%	5%	5%	4%	3%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	2%	2%	3%	↓
Preferred Equities	10%	8%	3%	2%	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Common Equities & ETFs	10%	0%	0%	0%	0%	0%	0%	0%	0%	-3%	-7%	-10%	-10%	-10%	-10%	-10%	-11%	-11%	-11%	-11%	-12%	↔
Derivatives	+/- 2.5%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	-1%	-2%	-1%	0%	0%	0%	0%	N/A
Cash and Equivalents		-18%	19%	13%	5%	0%	3%	3%	7%	7%	2%	8%	4%	4%	4%	7%	6%	7%	3%	2%	9%	↔
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Duration	0 to 5 years	2.7	2.9	2.7	2.1	2.0	2.9*	2.4*	2.6*	2.6*	3.2*	2.8*	2.8*	3.2*	2.9*	2.7*	3.6*	3.5*	3.0*	3.4*	3.5*	↔
Leverage	0-3x	1.37x	1.09x	1.00x	1.10x	1.10x	1.30x	1.10x	0.90x	0.90x	0.80x	0.70x	0.70x	0.70x	0.70x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x	↔
Unhedged FX Exposure	<20%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔

Source: Ninepoint Partners

Ninepoint Credit Income Opportunities

Similar to the Alternative Credit Opportunities fund, it has been a good start to the year. The fund was up 0.87% in March (2.72% YTD), mostly driven by strong income generation and capital appreciation in Hybrids/LRCN.

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS[1] AS OF MARCH 31, 2024 (SERIES F NPP507) | INCEPTION DATE: JULY 1, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	Inception
Fund	0.9%	2.7%	2.7%	6.9%	8.6%	2.3%	5.1%	4.6%

As of month-end, duration, yield-to-maturity, spread duration and leverage all remained broadly similar month-over-month, ending at 3.2 years, 9.2%, 3 years and 0.6x respectively. We believe these characteristics are prudent given our macroeconomic outlook. As the broad HY market remains extremely overvalued, we remain committed to our short HY position as the best way to hedge credit in an adverse environment. Similar to the other two funds, we added to RY sub-debt with a coupon north of 5%. Our high yield weight moved down on the month to 14% as our BPY maturity outweighed our SNC Lavalin purchase. We continue to exercise caution and recycle upcoming maturities in similarly high-quality paper.

Ninepoint Credit Income Opportunities Fund

	Limits	Dec 2018	June 2019	Dec 2019	June 2020	Dec 2020	June 2021	Dec 2021	June 2022	Dec 2022	March 2023	April 2023	May 2023	June 2023	July 2023	August 2023	Sept 2023	Oct 2023	Nov 2023	Dec 2023	Jan 2024	Feb 2024	March 2024	Outlook
Government Bonds	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Investment Grade	100%	52%	48%	59%	57%	49%	34%	31%	32%	37%	36%	47%	49%	49%	50%	58%	60%	64%	65%	67%	73%	76%	72%	↑
High Yield	40%	24%	16%	6%	28%	26%	32%	33%	38%	31%	29%	27%	27%	26%	28%	30%	27%	23%	22%	22%	17%	18%	14%	↓
ABS	20%	3%	5%	5%	8%	15%	10%	14%	8%	10%	12%	11%	9%	9%	8%	9%	9%	9%	8%	6%	6%	6%	6%	↔
Loans	10%	3%	3%	2%	7%	6%	4%	8%	7%	9%	6%	9%	7%	8%	8%	8%	8%	8%	8%	7%	5%	5%	5%	↓
Preferred Equities	10%	4%	0%	0%	0%	5%	8%	2%	3%	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Common Equities & ETFs	10%	0%	0%	-7%	-15%	-8%	0%	1%	2%	1%	1%	-2%	-7%	-8%	-9%	-9%	-9%	-9%	-11%	-10%	-11%	-11%	-10%	↔
Derivatives	+/- 2.5%	0%	-0.4%	0%	1%	1%	1%	1%	3%	1%	0%	0%	0%	0%	0%	0%	-2%	-2%	-1%	0%	0%	0%	0%	N/A
Cash and Equivalents		14%	28%	32%	8%	3%	1.2%	5%	1%	5%	12%	6%	9%	15%	13%	4%	4%	5%	4%	5%	3%	1%	9%	↔
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Duration	0 to 5 years	2.1	2.2	1.7	3.3	3.8	2.5	2.5	1.4	2.4*	2.6*	2.7*	2.9*	2.6*	2.7*	3.2*	3.3*	3.1*	3.8*	3.6*	3.4*	3.7*	3.2*	↔
Leverage	0-4x	0.7x	1.0x	1.04x	1.67x	1.04x	1.36x	1.30x	1.40x	1.20x	0.90x	0.90x	0.80x	0.70x	0.70x	0.80x	0.70x	0.70x	0.70x	0.70x	0.7x	0.7x	0.6x	↔
Unhedged FX Exposure	20%	0%	2.7%	-3.2%	0.3%	2%	0%	0.5%	-0.2%	0.3%	0.2%	0.1%	-0.2%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔

Source: Ninepoint Partners

Until next month,

Mark, Etienne & Nick
Ninepoint Partners

[1] All Ninepoint Diversified Bond Fund 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, 2024 [1] All Ninepoint Credit Income Opportunities Fund returns and fund details are a) based on Class F units; b) net of fees; c) annualized if period is greater than one year; d) as at March 31, 2024. [1] All Ninepoint Alternative Credit Opportunities Fund returns and fund details are a) based on Class F units; b) net of fees; c) annualized if period is greater than one year; d) as at March 31, 2024.

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