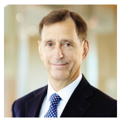
Ninepoint Fixed Income Strategy

February 2024 Commentary

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



Mark Wisniewski,
Partner, Senior Portfolio Manager

Etienne Bordeleau-Labrecque, MBA, CFA
Vice President, Portfolio Manager

Nick Warwick, MBA, CFA
Associate Portfolio Manager

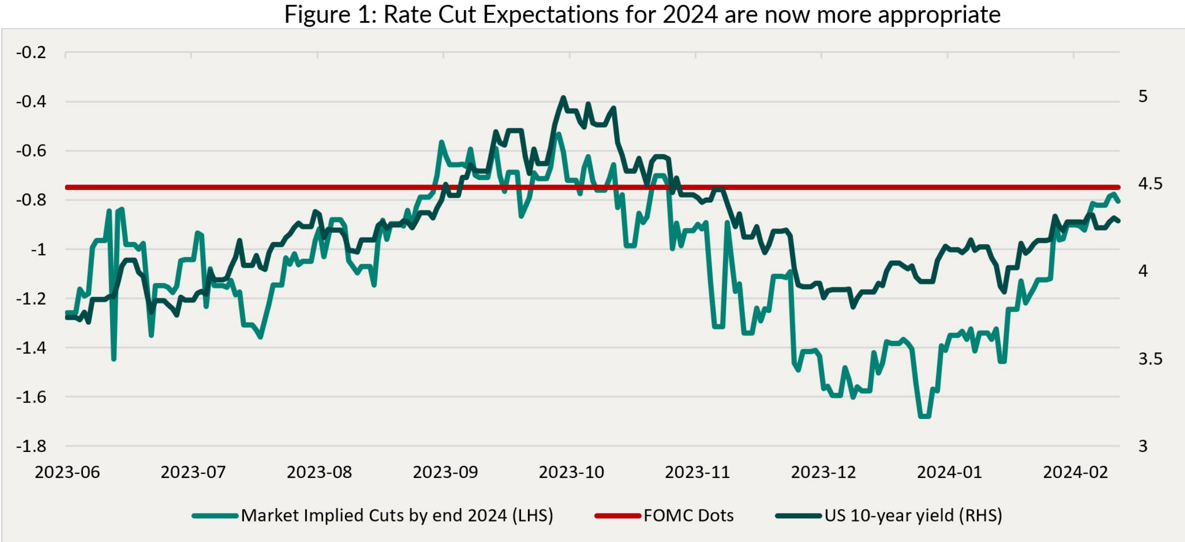
Summary

- Expectations for rate cuts in 2024 are declining and are now more balanced.
- Elevated services inflation will require a labour force adjustment to finally vanquish inflation.
- We expect central banks to keep pushing out the first rate cuts of this cycle.
- With default and delinquency rates going up, credit valuations appear dislocated.

Economics

Last month, we made the point that market expectations for rate cuts this year were still unrealistic, and that given the current growth and inflationary dynamics, rate cut expectations needed to be both pushed out in time and reduced in magnitude. As of the end of February, with only about 3 full cuts expected for 2024 in both Canada and the U.S. (same as the Fed's guidance), we feel like expectations are much more reasonable. (Figure 1).

Figure 1: Rate Cut Expectations for 2024 are now more appropriate



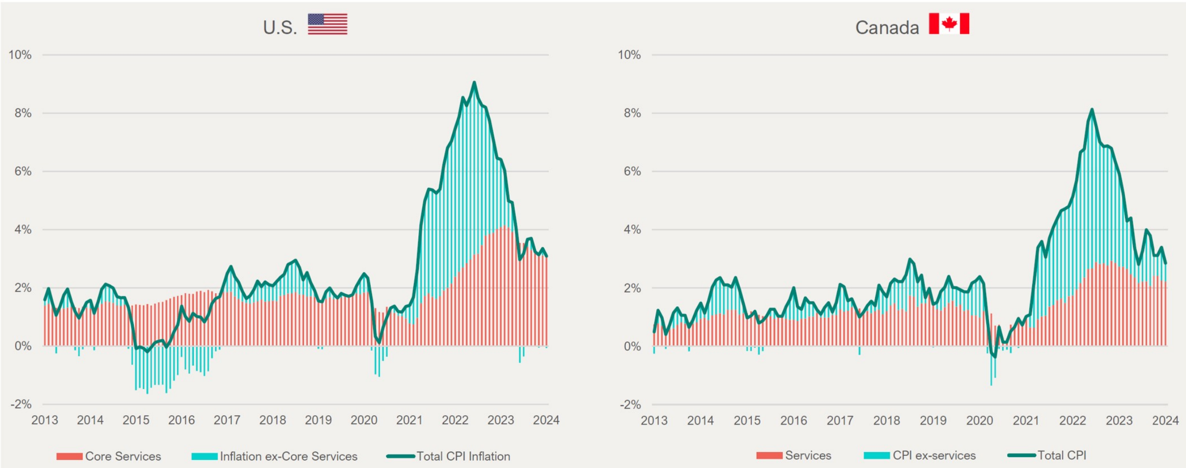
Source: Bloomberg

That still doesn't mean rate cuts are a certainty for 2024. For example, elevated fiscal spending could keep the economy too hot and prevent any further progress on inflation, preventing central banks from cutting at all. While this isn't our base case, it is clearly a risk, particularly in the U.S., where the

Federal Government is eyeing additional fiscal measures.

But even without additional fiscal easing, the fight against inflation isn't over, and it would be foolish for the Fed or the BoC to declare victory. Most of the decline in inflation over the past two years can be attributed to declines in energy and goods prices, whereas services inflation continues to run at very elevated levels. To illustrate this dynamic, we show in Figure 2 below the contribution of goods (blue) and services (red) to inflation. To achieve a level of services inflation consistent with both central bank's 2% inflation target, we need to see the contribution of services inflation (about 50% of the CPI basket) decline by around a half of where it currently is.

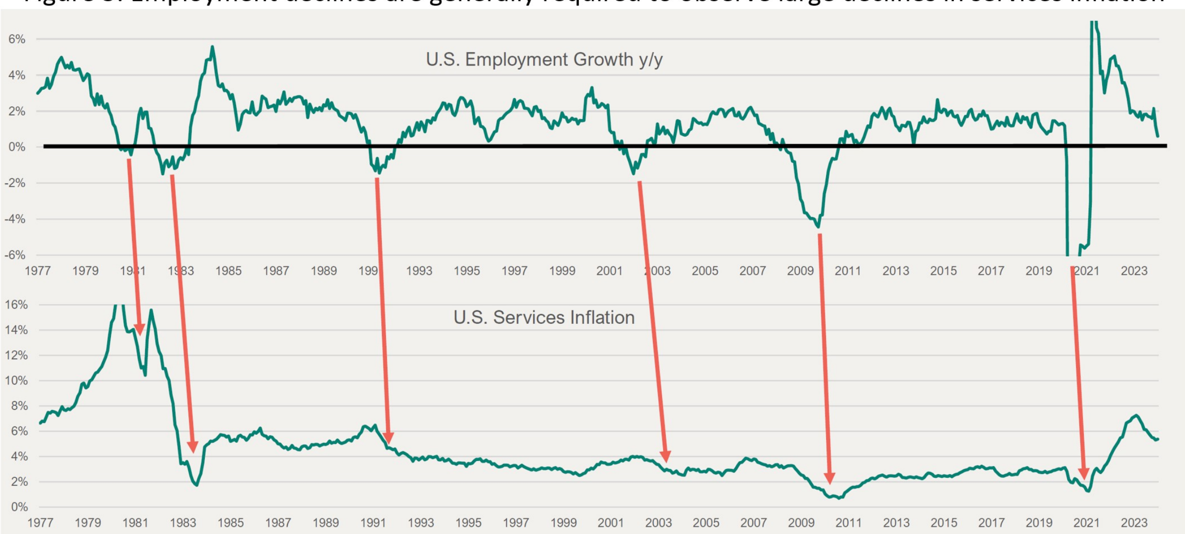
Figure 2: Progress on inflation is stalling without further declines in services inflation



Source: Bloomberg, as at February 12, 2024

What is services inflation, and why isn't it declining the same way goods and energy prices are? About half of services inflation is the cost of shelter, and the rest are services like health care, education, transportation, etc. Those services (construction included) are generally labour intensive, and therefore are more directly related to the state of the labour market. That relationship can be seen in Figure 3 below, where we show the annual growth rate in employment (i.e. the yearly % change in the number of employed people) and services inflation.

Figure 3: Employment declines are generally required to observe large declines in services inflation



Source: Bloomberg

We show U.S. data here because the availability of data is extensive, allowing us to go back to the

1970s. The data is clear: for the last 50 years, there hasn't been a meaningful and rapid decline in U.S. services inflation that wasn't preceded or coincided with a shrinking of the labour market (i.e. job losses).

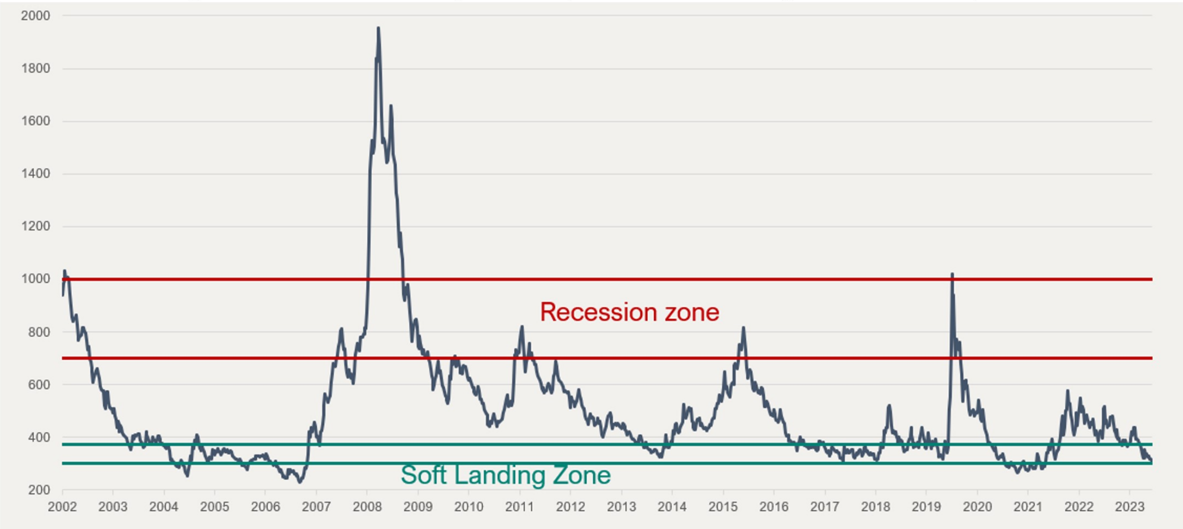
A weaker labour market will allow wages to decline, prices to drop, and eventually also feed into the housing market, where we need to see further softening. There is no such thing as immaculate disinflation. The pandemic created imbalances in the supply and demand of goods, and that is now a thing of the past (as the blue bars in Figure 2 illustrate), but the cyclical excesses of services inflation cannot be resolved until the labour market cracks. If the Fed and the BoC cut too soon, before services inflation has been properly tamed, they risk seeing a resurgence in inflation, which would require them to hike again. At this juncture, if the labour market doesn't deteriorate, we should expect fewer interest rate cuts for 2024. And a very slight possibility of no cuts – remember 2023.

Credit

Canadian investment grade credit spreads continued their march tighter in February rallying 10bps in the month. That is an impressive month on a stand-alone basis, but also because supply was robust and US spreads ended the month flat. Canadian corporate bond supply in February was $12bln, the second highest February on record and follows a record January. What is even more impressive is that issuers rarely had to pay new issue concessions which speaks to the strong appetite for corporate bonds YTD. Given that US credit sold off 10bps heading into month end on supply indigestion (record issuance YTD there as well), we expect Canadian credit to follow suit (it normally does with a lag). Perhaps the lack of spread compression, post issuance in some of the more recent deals is a clue of what is to come.

After this fast and furious rally, with very few exceptions, credit is now priced to perfection. For example, HY spreads (Figure 4) are now back to 2021 levels, last seen when we had QE, fiscal stimulus, 0% interest rates, and very few defaults. Across the funds, we are much more defensively positioned across credit products, focusing on higher quality issuers, and shorter maturities to minimize volatility.

Figure 4: Risk assets are priced to perfection: U.S. High Yield Credit Spread



Source: Bloomberg and Author's Calculations, as at February 27, 2024

Individual Fund Commentary

Ninepoint Diversified Bond Fund

The fund remains defensively positioned with a focus on short-term investment grade bonds. Our High Yield weight moved up month-over-month from 12% to 13%, due to new issue activity. Maturities at the beginning of March will ensure a continued decline in our HY weight. The average credit quality remains at BBB+ which we feel is prudent given our macro-economic outlook. The yield-to-maturity of the fund moved down 10bps month-over-month and now sits at 7.5%. Given the sell-off in rates, we increased duration by one year and now sits at 6.5 years. Lastly, our short position in HY (used for credit hedging purposes) remains at our target of -7%.

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	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%	↔
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%	↔
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%	↓
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%	↔
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%	↔
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%	↔
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%	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%	↑
Total		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*	↔
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	↔
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%	↔

Source: Ninepoint Partners

Ninepoint Alternative Credit Opportunities

The fund remains defensively positioned with a focus on short-term investment grade bonds. Our High Yield weight moved up month-over-month from 10% to 12%, due to new issue activity. Maturities at the beginning of March will ensure a continued decline in our HY weight. The average credit quality remains at BBB+ which we feel is prudent while leverage remains historically low (by our standards) at 0.7x. The yield-to-maturity ended the month at 8.6% while duration ended the month at 3.4 years (up from 3 years) with the sell-off in rates. Our short position in US High Yield ETFs (HYG and JNK used for credit hedging purposes) remains 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	Outlook
Government Bonds	100%	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%	↑
High Yield	40%	32%	22%	29%	27%	28%	24%	19%	19%	17%	14%	14%	13%	14%	12%	10%	9%	9%	10%	12%	↓
ABS	20%	4%	6%	7%	11%	15%	18%	23%	23%	23%	23%	23%	25%	24%	23%	23%	23%	19%	19%	20%	↔
Loans	10%	0%	3%	5%	5%	4%	3%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	2%	2%	↓
Preferred Equities	10%	8%	3%	2%	1%	1%	1%	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%	↔
Derivatives	+/- 2.5%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	-1%	-2%	-1%	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%	↔
Total		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*	↔
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	↔
Unhedged FX Exposure	<20%	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

The fund remains defensively positioned with a focus on short-term investment grade bonds. Our High Yield weight moved up month-over-month from 17% to 18%, due to new issue activity. Maturities at the beginning of March will ensure a continued decline in our HY weight. The average credit quality remains BBB which we feel is prudent, while leverage remains historically low (by our standards) at 0.7x. The yield-to-maturity ended the month at 9.3% while we moved duration 0.3 years higher to 3.7 years given the sell-off in rates. Our short position in US High Yield ETFs (HYG and JNK used for credit hedging purposes) remains at our target of -11%.

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	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%	↔
Investment Grade	100%	52%	48%	59%	57%	49%	34%	31%	32%	37%	36%	47%	49%	49%	50%	58%	60%	64%	65%	67%	73%	76%	↑
High Yield	40%	24%	16%	6%	28%	26%	32%	33%	38%	31%	29%	27%	27%	26%	28%	30%	27%	23%	22%	22%	17%	18%	↓
ABS	20%	3%	5%	5%	8%	15%	10%	14%	8%	10%	12%	11%	9%	9%	8%	9%	9%	9%	8%	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%	↓
Preferred Equities	10%	4%	0%	0%	0%	5%	8%	2%	3%	2%	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%	↔
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%	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%	↔
Total		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*	↔
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	↔
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%	↔

Source: Ninepoint Partners

Conclusion

This year is like a game of chicken between central bankers and the market. Who will blink first? As the adage says: “Don’t fight the Fed”. We won’t. And if we can keep earning such elevated yields on high quality short term paper for a bit longer, all the better.

Mark, Etienne & Nick
Ninepoint Partners

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS[1] AS OF FEBRUARY 29, 2024 (SERIES F NPP118) | INCEPTION DATE: AUGUST 5, 2010

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	0.5%	0.2%	3.8%	4.4%	4.2%	-1.1%	1.0%	2.2%	3.2%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS[1] AS OF FEBRUARY 29, 2024 (SERIES F NPP507) | INCEPTION DATE: JULY 1, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	1.0%	1.8%	4.8%	5.2%	5.9%	2.2%	5.1%	4.6%

NINEPOINT ALTERNATIVE CREDIT OPPORTUNITIES FUND - COMPOUNDED RETURNS[1] AS OF FEBRUARY 29, 2024 (SERIES F NPP931) | INCEPTION DATE: APRIL 30, 2021

	1M	YTD	3M	6M	1YR	INCEPTION
Fund	1.0%	1.5%	4.4%	5.6%	6.1%	0.3%

[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 February 29, 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 February 29, 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 February 29, 2024.

The Risks associated worth investing in a Fund depend on the securities and assets in which the Funds invests, based upon the Fund's particular objectives. There is no assurance that any Fund will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Fund will be returned to you. The Funds are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Fund's prospectus or offering memorandum before investing.

Ninepoint Credit Income Opportunities Fund is offered on a private placement basis pursuant to an offering memorandum and are only available to investors who meet certain eligibility or minimum purchase amount requirements under applicable securities legislation. The offering memorandum contains important information about the Funds, including their investment objective and strategies, purchase options, applicable management fees, performance fees, other charges and expenses, and should be read carefully before investing in the Funds. Performance data represents past performance of the Fund and is not indicative of future performance. Data based on performance history of less than five years may not give prospective investors enough information to base investment decisions on. Please contact your own personal advisor on your particular circumstance. This communication does not constitute an offer to sell or solicitation to purchase securities of the Fund.

Ninepoint Partners LP is the investment manager to the Ninepoint Funds (collectively, the "Funds"). Commissions, trailing commissions, management fees, performance fees (if any), other charges and expenses all may be associated with mutual fund investments. Please read the prospectus carefully before investing. The indicated rate of return for series F units of the Fund for the period ended February 29, 2024 is based on the historical annual compounded total return including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The opinions, estimates and projections ("information") contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners LP. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners LP is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

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