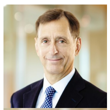
Ninepoint Fixed Income Strategy

April 2021 Commentary

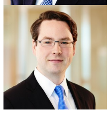
*Monthly commentary discusses recent developments across both the **Diversified Bond** and **Credit Income Opportunities Funds**.*

*On May 10th, we launched a new fund, the **Alternative Credit Opportunities Fund**, a simplified prospectus-based fund with an ETF series purchase option and daily liquidity. Starting next month, this commentary will also discuss the developments within this new Liquid Alternative fund.*

Investment Team



Mark Wisniewski,
Partner, Senior Portfolio Manager

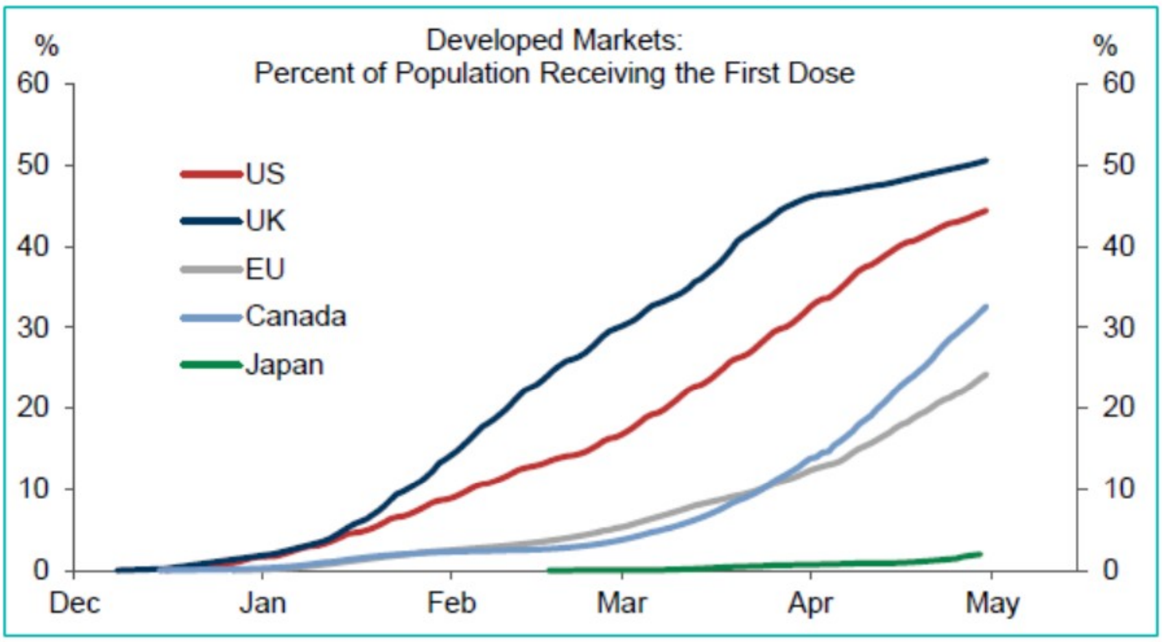


Etienne Bordeleau-Labrecque, MBA, CFA
Vice President, Portfolio Manager

Macro

In most of the developed world, the Covid-19 vaccination programs continue to accelerate. Several countries such as the US and the UK are now reaching vaccination levels consistent with a prudent reopening (Figure 1). Closer to home, vaccinations have also increased rapidly, and at the current pace, we should reach about 50% of the Canadian population having received its first dose by the end of May. While it remains to be seen where the vaccination rates will peak, survey-based data suggests that a large share of Canadians are fairly receptive to getting vaccinated. The same cannot be said about the US, where vaccine hesitancy has already led to a lower daily pace of vaccination and a pile-up in vaccine inventories.

Figure 1: Vaccinations are Rising Rapidly



Source: Our World in Data, John Hopkins University Centers for Civic Impact, Goldman Sachs Global Investment Research

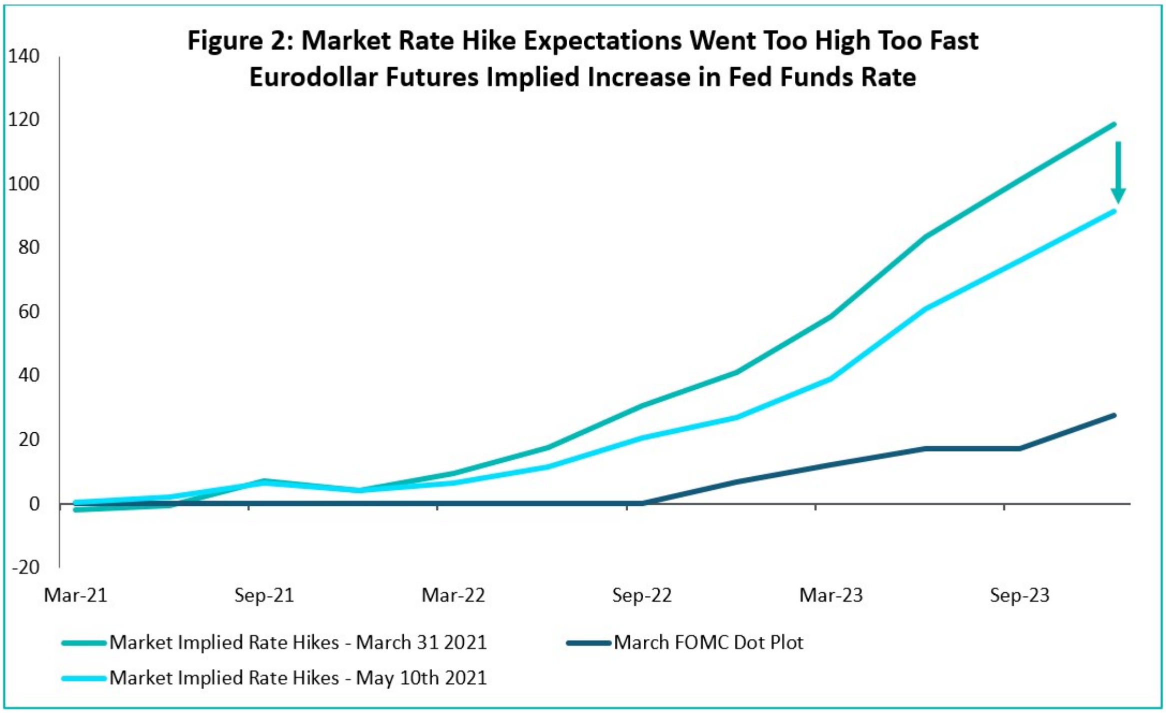
Nonetheless, several US States are loosening restrictions, so after months of anticipation for extremely strong economic activity in the spring, all eyes are now on the actual economic data releases. Will the recovery be as strong as some forecast, or will it take some time for those who have lost their jobs to come back to the labour market?

Expectations for the strength of the "reopening" are very high; after a blockbuster jobs report in March (over

700k jobs added), the April report was widely anticipated to result in a further 1 million increase in employment, with some even suggesting as much as 1.5 million. Such a pace of hiring would have gone a long way to solidify the expectations for a return to full employment by 2022.

Unfortunately, the results were rather disappointing, with less than 300k net new jobs added during the months. This is obviously perplexing, given the reopening of many states, one would have expected to see a lot more hiring activity. Despite all the discussions surrounding seasonality adjustments and other technical factors, there is no doubt that this was a weak report. The unemployment rate increased from last month, while at the same time other indicators of labour demand show that firms have had a hard time finding employees to fill positions. Certainly, given the largesse of government benefits coupled with fear of the virus, some unemployed workers are probably choosing not to return to work. If this dynamic persists, it might take more time for overall employment to reach levels consistent with the Fed's new framework.

Accordingly, the bond market has started to re-adjust downward its expectation for Fed rate hikes. As shown in Figure 2 below, since the end of March, the market has already repriced by about 30bps. This is a tricky situation for policy makers; the Fed has a mandate of full employment "before even thinking about raising rates", but fiscal policy is creating an environment where workers are disincentivized to rejoin the workforce. Would rising wages help to motivate them? To what extent? Certainly, these dynamics if they persist, will continue to fuel the inflationary narrative. Will the Fed, which characterizes the current inflation increases as temporary (i.e. due to base effects and supply chain disruptions), look through this as well, or reassess where the level of full employment really is? The situation remains very fluid, and it will take time to disentangle noise from signal, but one thing is certain: the trajectory of the economy is not as obvious as the market consensus seems to assume. The higher expectations are, the more likely they are to be disappointed.



Source: Citi Rates Trading, Bloomberg

Credit

Credit continues to perform well, with spreads mostly stable in April. While we are still about 10bps from the lows of February, the tone in the market is strong again. New issues are very competitive, resulting in order books that are routinely 4-5x oversubscribed. Earnings have been solid so far in Q1, with several companies focusing on debt reduction (oil and gas for example) and balance sheet management. With the summer approaching, we expect new issuance to slow down somewhat, which should be supportive for the credit market.

Diversified Bond Fund (DBF)

April was a good month for the DBF, returning 40bps. Stability in credit and interest rates allowed the fund to earn its carry, uninterrupted. We continue to reinvest our short-dated investment grade (1-3 years) into the belly of the curve (7-10 years), where we are finding much better all-in-yields. Accordingly, the portfolio duration edged up slightly to 4.2 years (spread duration 5 years). Over the coming weeks, we expect to slightly increase our allocation to high yield, mostly due to investments in short-dated or called HY bonds (at yields of about 2%) and new investments in hybrid securities as preferred shares slowly get called away (note the declining portfolio weight).

Diversified Bond Fund Portfolio Characteristics

	Limits	Dec 2017	Mar 2018	Jun 2018	Sept 2018	Dec 2018	Mar 2019	Jun 2019	Sept 2019	Dec 2019	Mar 2020	June 2020	Sept 2020	Dec 2020	Mar 2021	Apr 2021	Outlook
Government Bonds	**100%**	-2%	0%	-4%	2%	1%	7%	22%	28%	13%	9%	9%	14%	8%	-8%	**-7%**	↔
Investment Grade	**80%**	37%	56%	66%	73%	76%	72%	58%	61%	58%	78%	80%	71%	74%	84%	**84%**	↓
High Yield	**40%**	32%	24%	17%	16%	13%	14%	9%	7%	6%	13%	11%	12%	11%	12%	**13%**	↑
Emerging Market Governments	**10%**	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%	**1%**	↔
Preferred Equities	**10%**	6%	6%	6%	6%	2.5%	0.7%	0%	0%	0%	0%	0%	2%	4%	6%	**5%**	↔
Common Equities & ETFs	**10%**	0%	0%	0%	1.5%	1.5%	4.3%	2.4%	-1.3%	0%	0%	-6%	-5%	-2%	0%	**0%**	↔
Derivatives	**+/- 2.5%**	-0.1%	+0.5%	-0.1%	-0.05%	0.0%	0.0%	-0.2%	0.0%	0.2%	0%	0%	0.1%	0%	0%	**0%**	**N/A**
Cash and Equivalents		28%	14%	15%	1.5%	6%	2%	9%	6%	22%	0%	6%	6%	5%	5%	**5%**	↓
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	**100%**	
Duration	**1 to 8 years**	2.4	2.1	2.3	1.0	2.4	3.4	5.4	6.5	4.3	3.8	5.9	6.2	5.3	3.6	**4.2**	↔
Spread Duration		-	-	-	3.4	2.9	3.0	2.3	3.1	3.0	2.2	4.1	3.8	3.9	4.5	**5.0**	↑
Unhedged FX Exposure	**20%**	0%	0%	0%	0%	0%	0%	6%	5%	3%	3%	5%	6%	6%	0.5%	**0.9%**	↔

Source: Ninepoint Partners

Credit Income Opportunities Fund (Credit Opps)

It was another good month for the Credit Opps, returning 71bps. Like last month, slightly wider credit spreads were more than offset by the income the fund generates, and with its very low duration, performance was not materially impacted by rates.

The High Yield allocation is up to 40%, mostly reflecting purchases of called bonds with attractive yields to call (2%). Like the DBF, some of our preferred shares are now being called, as expected, thus reducing our allocation. Leverage is up modestly to 1.37x, reflecting the constructive credit environment and strong company fundamentals. Given some of the new opportunities we are seeing in credit we would expect leverage to stabilize around 1.5x in the coming months.

Credit Income Opportunities Portfolio Characteristics

	Limits	Oct 2018	Dec 2018	Mar 2019	June 2019	Sept 2019	Dec 2019	Mar 2020	June 2020	Sept 2020	Dec 2020	Mar 2021	Apr 2021	Outlook
Government Bonds	**100%**	0%	0%	6%	0%	18%	0%	0%	0%	0%	0%	0%	**0%**	↔
Investment Grade	**100%**	58%	55%	58%	53%	68%	64%	72%	65%	77%	64%	53%	**49%**	↔
High Yield	**40%**	29%	24%	19%	16%	10%	6%	22%	28%	26%	26%	30%	**40%**	↔
Private Loans	**10%**	3%	3%	2%	3%	2%	2%	4%	7%	6%	6%	3%	**3%**	↑
Preferred Equities	**10%**	4%	4%	0.5%	0%	0%	0%	0%	0%	0%	5%	10%	**8%**	↔
Common Equities & ETFs	**10%**	0%	0%	0%	0%	-7%	-7%	-10%	-15%	-13%	-8%	0.3%	**0.1%**	↔
Derivatives	**+/- 2.5%**	0%	0%	0%	-0.4%	0%	0%	0%	1%	0%	1%	1%	**1%**	**N/A**
Cash and Equivalents		6%	14%	15%	28%	8%	32%	12%	8%	2%	3%	-0.5%	**-7%**	↑
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	**100%**	
Duration	**0 to 5 years**	2.5	2.1	2.9	2.2	2.9	1.7	2.6	3.3	5.1	3.8	2.6	**3.0**	↔
Leverage	**0-4x**	0.7x	0.7x	1.0x	1.0x	0.77x	1.04x	0.87x	1.67x	1.15x	1.04x	1.26x	**1.37x**	↑
Unhedged FX Exposure	**<25%**	0%	0%	0%	2.7%	5.1%	-3.2%	0%	0.3%	0%	2%	1%	**1%**	↔

Source: Ninepoint Partners

Conclusion

Despite the volatility in the economic data, the commentary from companies' Q1 earnings has been strong and mostly credit positive. We continue to be cautiously optimistic about the outlook, and as such are positioning the portfolios to benefit from this environment.

Mark & Etienne
Ninepoint Partners

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS[1]
AS OF APRIL 30, 2021 (SERIES F NPP118)

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	0.4%	-1.0%	-0.8%	0.0%	3.7%	3.2%	3.9%	3.8%	4.4%

NINEPOINT DIVERSIFIED BOND CLASS - COMPOUNDED RETURNS[1]
AS OF APRIL 30, 2021 (SERIES F NPP221)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	0.4%	-1.0%	-0.8%	0.0%	3.6%	3.1%	3.8%	4.4%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS[1]
AS OF APRIL 30, 2021 (SERIES F NPP507)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	0.7%	2.3%	1.6%	7.7%	21.1%	6.7%	7.1%	5.9%

[1] All Ninepoint Diversified Bond Fund/Class 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 April 30, 2021 [1] All Ninepoint Credit Income Opportunities Fund returns and fund details are a) based on Class F units (closed to subscriptions); b) net of fees; c) annualized if period is greater than one year; d) as at April 30, 2021.

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 April 30, 2021 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