Ninepoint Global Infrastructure Fund

August 2019 Commentary

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

Year-to-date to August 31, the Ninepoint Global Infrastructure Fund generated a total return of 22.83% compared to the MSCI World Core Infrastructure Index, which generated a total return of 17.42%. For the month, the Fund generated a total return of 3.90% while the Index generated a total return of 2.31%. Despite an extremely volatile month, with President Trump continuing to escalate the US-China trade war, plunging bond yields were generally supportive for infrastructure assets.

The month of August, typically a quiet period for the equity markets, began with a mid-afternoon tweet from Trump threatening to impose 10% tariffs on a third tranche of Chinese imports worth approximately $300 billion. Details were later clarified by the US Trade Representative, with tariffs on about $112 billion worth of goods effective September 1 but tariffs on the remaining $160 billion worth of goods delayed until December 15 because of “health, safety, national security and other factors”. In the days that followed, the vicious cycle continued. China retaliated with tariffs on $75 billion worth of US imports and Trump petulantly announced incremental tariffs of 5% on all three tranches of Chinese imports, impacting almost $550 billion worth of goods.

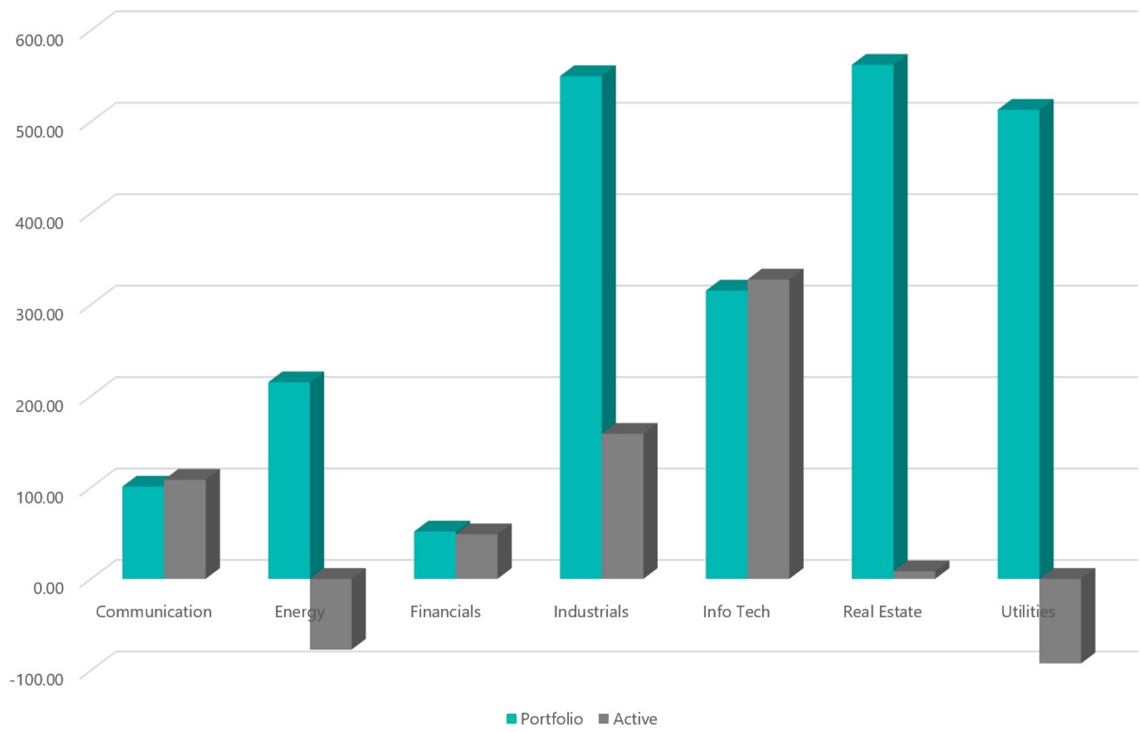
The broad equity markets were obviously unimpressed and promptly plunged in thin trading, with the S&P 500 down almost 5% from the close on July 31 to the lows of the move on August 5. However, fear of an imminent recession was most evident in the bond market, with panic buying rapidly pushing the US 10-year Treasury yield below 1.45%. Importantly, the US 2-year to 10-year Treasury yield curve briefly inverted, which historically has been a good predictor of an economic downturn within one to two years, assuming a normal interest rate and inflationary environment.

In response, both the ECB and the US Fed reiterated their willingness to ease monetary conditions and support economic growth. Based on US Fed funds futures, we expect at least another 50 bps of interest rate cuts by December 2019 but continue to believe that the current environment will prove to be a mid-cycle slowdown. However, accommodative monetary policy and easing trade tensions will now be required for robust economic growth. At this stage of the cycle, we will be watching the US consumer extremely closely but, if signs of stress don’t materialize, US economic growth should remain positive.

During August, the portfolio benefitted from our total-infrastructure approach, which blended steady, consistent yield with steady, consistent growth. Our holdings in traditional bond proxy sectors, such as Utilities and Real Estate, rallied as dividend yields compressed, thus directionally maintaining the spread to US 10-year Treasury bond yields. Similarly, our holdings in secular growth sectors, such as Information Technology and certain Industrials (specifically those with infrastructure concessions), rallied as price-to-earnings multiples expanded, thus correctly incorporating the lower risk-free rate of return.

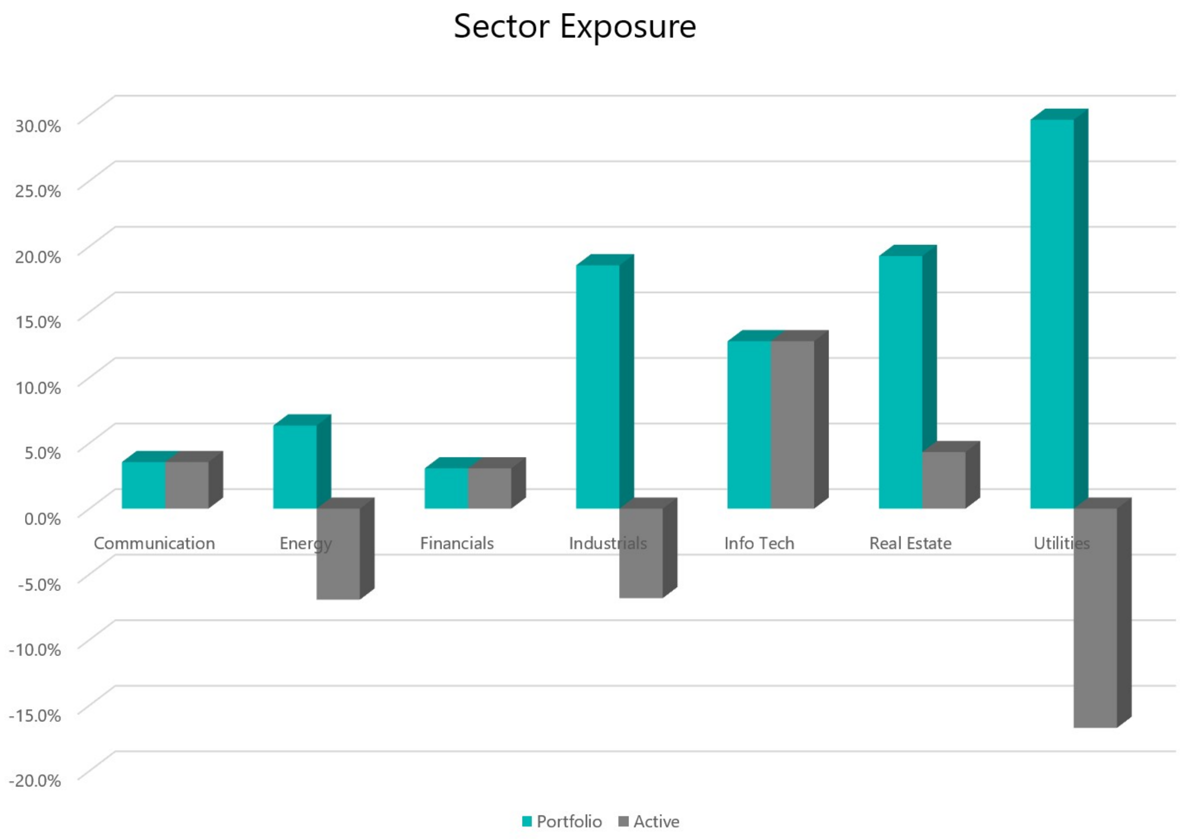
Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund by sector included Real Estate (+562 bps), Industrials (+550 bps) and Utilities (+513 bps) while no sector had a negative contribution on an absolute basis. On a relative basis, positive return contributions from the Information Technology, Industrials, Communication, Financials and Real Estate sectors more than offset negative contributions from the Utilities and Energy sectors.

Total Return Contribution - YTD



Source: Ninepoint Partners

We are currently underweight the Utilities, Energy and Industrials sectors and have allocated capital to the Information Technology, Real Estate, Communication and Financials sectors in line with our “total-infrastructure” approach. Again, we are relatively defensively positioned given the ongoing US-China trade war but would look to shift the portfolio toward more economically-sensitive sectors should we see some form of progress in the negotiations.



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Equinix (+175 bps), American Tower (+154 bps) and Ferrovial (+124 bps). Top detractors year-to-date included Raytheon (-13 bps), Plains GP Holdings (-12 bps) and Williams (-12 bps).

In August, our top performing investments included CyrusOne (+88 bps), Equinix (+49 bps) and American Tower (+38 bps) while Superior Plus (-38 bps), Union Pacific (-25 bps) and Enterprise Products Partners (-19 bps) underperformed.

Ferrovial SA, one of our favourite European infrastructure names (remember, the Company owns stakes in several trophy assets including the 407ETR and Heathrow Airport) has had a tremendous run in 2019, up approximately 48% to the end of August. Although the Company's construction division remains challenged (revenue declined 8.6% on a like-for-like basis over the first half of 2019), growth in the intrinsic value of Ferrovial's infrastructure assets has more than offset the weak results.

Since the beginning of the year, the Company has benefitted from several key catalysts including: the investor rotation out of French infrastructure names related to the gilet-jaune protests, the possibility of purchasing an additional 10% stake in the 407ETR (Ferrovial claims to have right of first refusal on SNC-Lavalin's interest that is up for sale), the release of expansion plans at Heathrow (including the construction of a third runway and car parks for approximately 50,000 vehicles), the outstanding performance of the Company's US Managed Lanes (including first half EBITDA growth of 42% at the North Tarrant Express Toll Road and 21% at LBJ Express Highway in Dallas, Texas) and the encouraging progress towards the sale of Ferrovial's Services division.

The sales process for the Services business is likely nearing completion, with bids either already in hand or to be received shortly and a decision expected by yearend. Note that the division is technically accounted for as “discontinued” but reported revenue growth of 10.5% and EBITDA growth of 9.4% through the first half of 2019 should support a robust standalone valuation. Perhaps most importantly, if accretive reinvestment opportunities remain elusive (given the tremendous amount of low-cost capital chasing quality infrastructure assets around the world), a significant share buyback, a meaningful dividend increase and/or a special dividend payment should be well received by current shareholders.

The Ninepoint Global Infrastructure Fund was concentrated in 28 positions as at August 31, 2019 with the top 10 holdings accounting for approximately 37.8% of the fund. Over the prior fiscal year, 26 out of our 28 holdings have announced a dividend increase, with an average hike of 11.5%. Using a total infrastructure 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 GLOBAL INFRASTRUCTURE FUND - COMPOUNDED RETURNS[1]
AS OF APRIL 30, 2020 (SERIES F NPP356)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	2.0%	-5.4%	-11.3%	-4.6%	1.3%	4.1%	3.7%	6.7%
Index	5.2%	-6.4%	-10.4%	-4.8%	-1.8%	6.2%	7.7%	12.6%

[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 30, 2019; e) 2011 annual returns are from 09/01/11 to 12/31/11.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: capital depletion risk; concentration risk; credit risk; currency risk; cybersecurity risk; derivatives risk; exchange traded funds risk; foreign investment risk; income trust risk; inflation risk; interest rate risk; liquidity risk; market risk; regulatory risk; series risk; short selling risk; small company risk; specific issuer risk; tax risk.

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 August 30, 2019 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. 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 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