Ninepoint Fixed Income Strategy

August 2021 Commentary

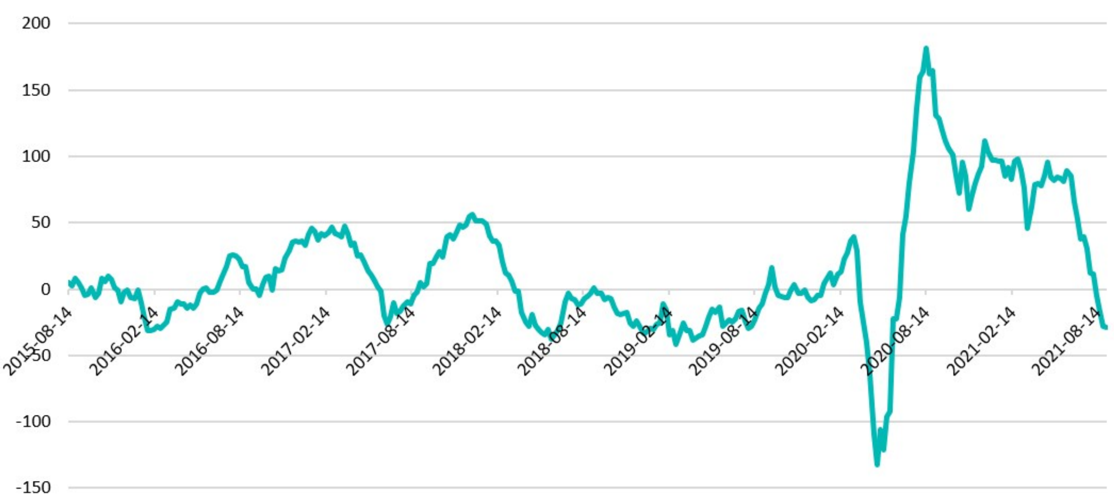
Monthly commentary discusses recent developments across both the ***Diversified Bond****,* ***Alternative Credit Opportunities*** *and* ***Credit Income Opportunities Funds****.*

Ninepoint Partners,

Macro

As usual, August was a very typical end of summer month. New issue activity came to a halt, volumes were low and the news flow slowed down meaningfully. Credit spreads continue to be stable; equities made all time highs while rates (10y) stabilized, albeit at very low levels. However, since June/July, economic data has kept on surprising to the downside (Figure 1 below shows the G10 Economic Surprise Index); Canada had negative GDP growth in Q2, payrolls in the US disappointed in August, PMIs in China have rolled over and are in contraction territory, just to name a few. Given the enormity of money that has been thrown at the world economy by governments and central banks, this backdrop is rather disappointing to those that were hoping for a quick snap back to "normal" from this pandemic.

Figure 1: Economic Data Continues to Surprise to the Downside
Citi G10 Economic Surprise Index



Source: Bloomberg

With the fiscal impulse winding down at the same time as the Delta variant is aggressively hitting developed economies, we are starting to get a better sense of what the new “normal” might look like. And in the medium term, it appears that the virus is here to stay. As long as large pockets of the world remain unvaccinated, it is highly likely that new variants of the virus will continue to surface, generating new waves and temporarily disrupting activity, particularly in areas with low levels of vaccination. This means that the current health measures, social distancing, self isolation, work from home and limits on capacity will likely be with us for quite a while longer, with important implications for the supply side of the economy.

This health crisis, from an economics perspective, is essentially a large negative supply shock; businesses, schools, non-profits, and governments all had to make meaningful adjustments to how they produce and deliver their goods and services to consumers. And those adjustments cost both time (labour) and capital, hence, all else equal, reducing overall supply to the economy. With demand still strong, businesses are now scrambling to re-hire and increase supply. Since demand never meaningfully waned during the recession, thanks to generous handouts from governments, we are now in a situation where demand far outstrips supply, creating price pressures.

In both the US and Canada, exceptionally generous unemployment benefits are set to expire in early September and October, respectively. Only then will we get a glimpse of what true labour supply might look like in the new normal. The most recent Fed Beige Book puts it in concisely:

".... all Districts noted extensive labor shortages that were constraining employment and, in many cases, impeding business activity."

If the pandemic is to remain part of our lives for the foreseeable future, with all the extra costs and lower productivity that this entails for the supply side of the economy, then the current Central Banks’ “transitory inflation” narrative could have to be revisited, with hawkish implications for monetary policy.

This is the most important policy question for us at this juncture: will the supply side of the economy respond dynamically to the changing and increasing demand, despite the headwinds from the continuing pandemic (longer economic cycle), or will inflation prove to be more persistent in face of continued labour shortages and rising wages, forcing Central Banks to tighten monetary policy much earlier and more aggressively than they would otherwise (short economic cycle). We look forward with anticipation to the incremental data this Fall, which should help provide some clarity as to which scenario is most likely to play out.

Diversified Bond Fund (DBF)

Following a strong month in July, performance moderated in August, with the fund returning 12bps. After making new yearly lows at the beginning of the month, interest rates rose modestly, a small headwind to performance. Credit spreads also drifted slightly wider during the month, but generically finished flat. There were no material changes to the portfolio.

Diversified Bond 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	June 2021	August 2021	Outlook
Government Bonds	100%	-2%	0%	-4%	2%	1%	7%	22%	28%	13%	9%	9%	14%	8%	-8%	2%	**1%**	↔
Investment Grade	80%	37%	56%	66%	73%	76%	72%	58%	61%	58%	78%	80%	71%	74%	84%	76%	**75%**	↓
High Yield	40%	32%	24%	17%	16%	13%	14%	9%	7%	6%	13%	11%	12%	11%	12%	14%	**17%**	↑
Emerging Market Governments	10%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%	1%	**0%**	↔
Preferred Equities	10%	6%	6%	6%	6%	2.5%	0.7%	0%	0%	0%	0%	0%	2%	4%	6%	5%	**4%**	↓
Common Equities & ETFs	10%	0%	0%	0%	1.5%	1.5%	4.3%	2.4%	-1.3%	0%	0%	-6%	-5%	-2%	0%	0%	**2%**	↔
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%	**0%**	N/A
Cash and Equivalents		28%	14%	15%	1.5%	6%	2%	9%	6%	22%	0%	6%	6%	5%	5%	1%	**1%**	↓
Total		100%	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	4.5	**4.3**	↔
Spread Duration		-	-	-	3.4	2.9	3.0	2.3	3.1	3.0	2.2	4.1	3.8	3.9	4.5	5.4	**5.1**	↔
Unhedged FX Exposure	20%	0%	0%	0%	0%	0%	0%	6%	5%	3%	3%	5%	6%	6%	0.5%	4%	**0%**	↔

Source: Ninepoint Partners

Alternative Credit Opportunities Fund (NACO)

It was another good month for NACO, performing in line with the longer running Credit Opps. The preferred shares weighting continued to decline as they get called, we continue to replace those with LRCNs and Hybrids. We modestly increased our allocation to securities deemed illiquid, increasing a position in a Canadian private label residential mortgage-backed security. Otherwise, there were no meaningful changes to the portfolio.

Alternative Credit Opportunities Portfolio Characteristics

	Limits	May 2021	June 2021	July 2021	August 2021	Outlook
Government Bonds	100%	0%	0%	0%	0%	↔
Investment Grade	100%	58%	70%	54%	57%	↔
High Yield	40%	36%	32%	29%	24%	↑
Illiquid Securities	10%	0%	0%	0%	3%	↑
Preferred Equities	10%	8%	8%	4%	4%	↔
Common Equities & ETFs	10%	0%	0%	0%	0%	↔
Derivatives	+/- 2.5%	0%	0%	0%	0%	N/A
Cash and Equivalents		-2%	-18%	11%	10%	↔
Total		100%	100%	100%	100%	
Duration	0 to 5 years	3.0	2.7	3.1	3.0	↔
Leverage	0-3x	1.4x	1.37x	1.13x	1.06x	↑
Unhedged FX Exposure	<20%	0%	0%	0%	0%	↔

Source: Ninepoint Partners

Credit Income Opportunities Fund (Credit Opps)

The Credit Opps fund did relatively well in August, returning 38bps. Similar to the other funds, preferred shares continue to get called and we expect to replace them with HY bonds. Portfolio characteristics have been mostly stable, and we expect it will remain this way for the foreseeable future.

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	June 2021	August 2021	Outlook
Government Bonds	100%	0%	0%	6%	0%	18%	0%	0%	0%	0%	0%	0%	0%	**0%**	↔
Investment Grade	100%	58%	55%	58%	53%	68%	64%	72%	65%	77%	64%	53%	44%	**43%**	↔
High Yield	40%	29%	24%	19%	16%	10%	6%	22%	28%	26%	26%	30%	32%	**37%**	↓
Private Loans	10%	3%	3%	2%	3%	2%	2%	4%	7%	6%	6%	3%	4%	**5%**	↑
Preferred Equities	10%	4%	4%	0.5%	0%	0%	0%	0%	0%	0%	5%	10%	8%	**7%**	↓
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%	**1%**	N/A
Cash and Equivalents		6%	14%	15%	28%	8%	32%	12%	8%	2%	3%	-0.5%	1.2%	**2%**	↓
Total		100%	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	2.5	**3.3**	↔
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	1.36x	**1.50x**	↓
Unhedged FX Exposure	<25%	0%	0%	0%	2.7%	5.1%	-3.2%	0%	0.3%	0%	2%	1%	0%	**0%**	↔

Source: Ninepoint Partners

Conclusion

September is usually a very busy month for new issues, so we have raised a bit of cash, making sure we have some dry powder in store.

Mark & Etienne
Ninepoint Partners

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS[1] AS OF SEPTEMBER 30, 2021 (SERIES F NPP118) | INCEPTION DATE: AUGUST 5, 2010

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	-0.5%	0.2%	0.5%	1.7%	0.9%	3.5%	3.5%	4.4%	4.3%

NINEPOINT DIVERSIFIED BOND CLASS - COMPOUNDED RETURNS[1] AS OF SEPTEMBER 30, 2021 (SERIES F NPP221) | INCEPTION DATE: NOVEMBER 2, 2011

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	-0.5%	0.2%	0.5%	1.6%	0.9%	3.3%	3.4%	4.4%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS[1] AS OF SEPTEMBER 30, 2021 (SERIES F NPP507) | INCEPTION DATE: JULY 1, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	0.4%	4.9%	1.2%	3.3%	10.8%	7.4%	6.4%	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 August 31, 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 August 31, 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.

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