# Ninepoint Global Infrastructure Fund

## December 2018 Commentary


### Investment Team

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Year-to-date to December 31, the Ninepoint Global Infrastructure Fund generated a total return of -7.31% compared to the MSCI World Core Infrastructure Index, which generated a total return of 6.11%. Prior to October, we had used the S&P Global Infrastructure Index as our benchmark, which generated a total return of -1.35% year-to-date. Note that we changed our benchmark for administrative reasons, but unfortunately it does make our year-to-date returns appear much weaker on a relative basis.

Returns in the month of December were disappointing on an absolute and relative basis, with the Fund generating a total return of -6.56% while the MSCI World Core Infrastructure Index generated a total return of -1.80% and the S&P Global Infrastructure Index generated a total return of -0.40%. Currency hedging detracted significantly from our returns relative to the benchmark in 2018, as we were partially hedged into the USMCA trade agreement. However, the USD strengthened dramatically in the fourth quarter of the year on a flight-to-safety trade during the broad market correction.

To say that 2018 was a challenging year for investors is an understatement. By now you have probably seen the some of the stats from 2018. It was the worst year for the stock market since 2008, it was the worst December since 1931 and it was the worst Christmas Eve ever. Nearly every asset class (developed & emerging market stocks, high yield & investment grade corporate bonds and various commodities) generated a negative return on the year.

To put it simply, investors had become terrified that a Trump-induced trade war with China and an overly-hawkish US Federal Reserve would trigger a recession in the near-term. Although none of the incoming economic data supported this view, investors panicked. Obviously, it will be important to watch future developments closely, looking for any signs of policy error that would force us to change our more optimistic outlook. But note that Federal Reserve Chairman, Jerome Powell, seems to have already pivoted to a more dovish stance during a speech in early 2019, which triggered a powerful reflex rally in the markets and a selloff in the USD (immediately improving our relative performance due to our USD/CAD hedges).

Performance anxiety likely exacerbated the selloff into December and valuations disconnected from fundamentals (earnings growth is expected to come in around 24% in 2018 according to data from Refinitiv). The market is forward-looking and yes, estimates for 2019 have been coming down (from approximately $178 to $173, or a reduction of just under 3% according to data from Refinitiv) but this still implies 8% earnings growth. With the IMF calling for global growth of 3.7% in 2019 (including the US at 2.5%, the Eurozone at 1.9%, Canada at 2.0% and China at 6.2%), investors appear to have confused a slowdown with a recession.

Despite the 6% draw down for the S&P 500 in calendar 2018, history suggests that 2019 should be a decent year in the stock market. It would be very unusual to see two back to back negative years in a row, since down years have been followed by up years 74% of the time, with a median gain of 15% and an average gain of 13%, according to market data back to 1931. In fact, the 20% peak to trough drawdown for the S&P 500 over last few months of 2018 was almost as severe as the median recessionary decline of 24%, essentially pricing in a significant growth scare. Further, after last six corrections that have occurred since 1984 during a period of economic expansion (with an average decline of 19%), the market has generated an average return of 25% over the next six months.

Finally, although we are making the argument that this selloff is overdone, and valuations have become too attractive to ignore, we are cognizant that we are relatively later in the economic cycle. As the market rallies back toward more realistic valuation levels, we plan to focus even more intently on businesses with stable revenue and earnings growth, clean balance sheets and the ability to consistently grow dividends through the cycle, reducing the beta and increasing the yield across the funds. Infrastructure (both traditional and non-traditional), should perform well over the coming year, given the attractive combination of hard asset protection, stable growth and above-average yield.

Our modelling indicates that the Canadian dollar is slightly undervalued. However, the equity market selloff, oil price collapse and trade war rhetoric have introduced a new level of complexity to our FX analysis as prior correlations have become less statistically significant. We have therefore maintained hedges on half of our USD exposure to reduce volatility in the Fund, but we may collapse the hedges should the CAD overshoot fair value in 2019.
Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund included Mastercard (+114 bps), Parkland Fuel (+83 bps) and Visa (+82 bps). Top detractors year-to-date included Westshore Terminals (-58 bps), Equinix (-53 bps) and Mastec (-53 bps). Top contributors by sector included Information Technology (+236 bps), Communication Services (+35 bps) and Real Estate (+24 bps) while top detractors by sector included Industrials (-239 bps), Energy (-217 bps) and Consumer Discretionary (-56 bps).

Our underweight positioning in the Utilities sector detracted from our relative performance for the year but, once recession fears subside, we expect to regain some lost ground through our holdings in more cyclical sectors such as Information Technology, Communication Services, Industrials and Energy. Unsurprisingly, our holdings in the US had the greatest positive contribution to returns in 2018 (driven by the stronger USD), while Canada lagged, due to energy weakness late in 2018 (although crude oil and the energy sector have rebounded in early 2019) and Europe was mixed.

The Ninepoint Global Infrastructure Fund was concentrated in 27 positions as at December 31, 2018 with the top 10 holdings accounting for approximately 43.3% of the fund. Over the prior fiscal year, 24 out of our 27 holdings have announced a dividend increase, with an average hike of 11.1%. 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 JUNE 30, 2022 (SERIES F NPP356) | INCEPTION DATE: SEPTEMBER 1, 2011

| | 1M | YTD | 3M | 6M | 1YR | 3YR | 5YR | 10YR | I |
|---|---|---|---|---|---|---|---|---|---|
| Fund | -4.5% | -3.1% | -5.2% | -3.1% | 3.0% | 6.6% | 7.0% | 7.7% | |
| MSCI World Core Infrastructure NR (CAD) | -4.5% | -3.7% | -5.2% | -3.7% | 5.7% | 4.6% | 7.3% | 11.3% | |

[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 December 31, 2018; e) 2011 annual returns are from 09/01/11 to 12/31/11. The index is 100% MSCI World Core Infrastructure NR (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

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