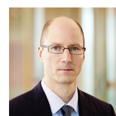
Ninepoint Global Infrastructure Fund

December 2019 Commentary

Investment Team



Jeff Sayer, CFA
Vice President, Portfolio Manager

Year-to-date to December 31, the Ninepoint Global Infrastructure Fund generated a total return of 24.28% compared to the MSCI World Core Infrastructure Index, which generated a total return of 20.23%. For the month, the Fund generated a total return of 0.02% while the Index generated a total return of 1.50%.

After a difficult year in 2018, almost every major asset class rebounded strongly in 2019. Stocks rallied (both domestic and international), bonds rallied (both governments and corporates), real assets rallied (both real estate and infrastructure) and commodities rallied (both gold and oil). The broad-based strength in 2019 was directly related to the level of outright fear that gripped investors at the end of 2018, which pushed valuations to deeply depressed levels and created the oversold conditions necessary for a powerful recovery across the board.

Thankfully, fears related to a US Fed-induced recession, a worst-case scenario for US-China trade relations and a "hard-BREXIT" proved to be unfounded in 2019. In fact, the Fed abruptly pivoted early in the year, eventually cutting rates three times for a total of 75 basis points. The Fed also began buying short-term Treasuries in October at an initial pace of $60 billion per month thus injecting liquidity into the financial system. Further, US and China trade representatives managed to hammer out a "phase-one" trade deal (although an official document has yet to be signed as of writing). Essentially, the US agreed to roll-back previously implemented tariffs and postponed threatened tariffs on approximately $160 billion worth of Chinese-made consumer goods in exchange for purchases of American goods (primarily agricultural products) and some concessions regarding the protection of intellectual property rights. Finally, after winning a Conservative majority in the UK general election, Boris Johnson should now be able to deliver on the promise of a negotiated BREXIT without having to resort to crashing out of the European Union. Perhaps we did not get perfect outcomes but, taken together, the developments were certainly good enough to trigger an exceptional relief rally across asset classes.

We believe that the global economy can continue to work through what should turn out to be a mid-cycle correction. Central banks around the world have done their part by easing monetary conditions and some economic data points have shown early signs of stabilization and even recovery. Importantly, the JPMorgan Global Composite PMI has shown an improving trend since bottoming at 50.8 last October to reach 51.7 in December. Consistent with this trend, the IMF is calling for world economic growth to reaccelerate to 3.4% in 2020, after dipping to 3.0% in 2019 from 3.6% in 2018. Interest rates also appear to confirm the nascent recovery, with the rebound of the US 10-year bond yield (from a low of 1.43% in early September to just over 1.80% recently) and the steepening of the 2-year/10-year yield curve (from -4 bps in late-August to +35 bps by the end of December).

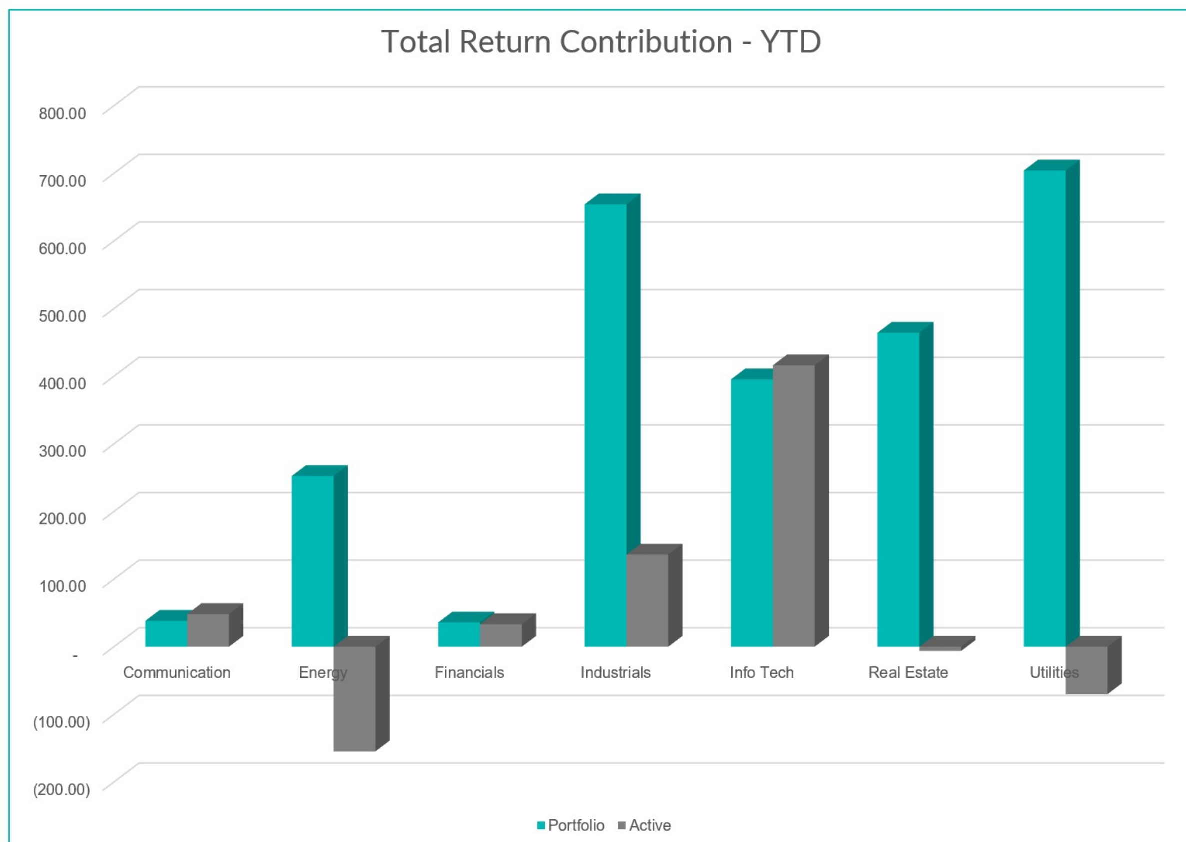
Although we acknowledge that many risks remain (geopolitical turmoil and the upcoming US

Presidential election quickly come to mind), today's environment looks relatively benign for investors, with some even calling for a "goldilocks" economy (characterized by low interest rates, low inflation and moderate growth). Currently, our biggest concern is valuation (making the market susceptible to a correction at any time) and we would point out that almost all the 2019 rally was driven by P/E multiple expansion as opposed to earnings growth, which remained relatively flat for the year.

Looking at the S&P 500 specifically, from a depressed 14x forward earnings estimates, the market rallied to more than 18x forward earnings estimates by the end of 2019, the upper end of historic valuation ranges. To realize material gains from here, we will need to see some combination of revenue growth, margin expansion and earnings growth in 2020. Thankfully, we continue to believe that if Trump's goal is to be re-elected next November, he will do everything in his power to protect the domestic economy, create jobs and bolster consumer confidence. If this scenario plays out, we would expect markets to grind higher through the balance of 2020.

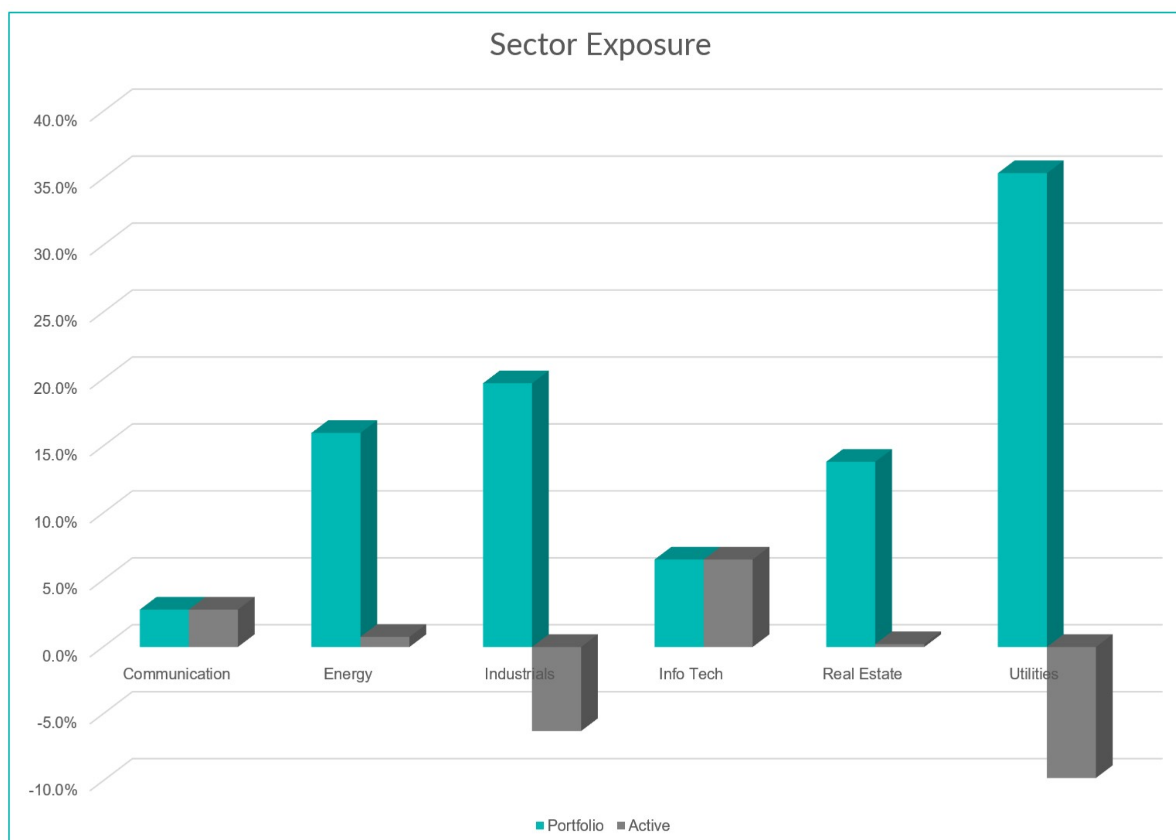
Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund by sector included Utilities (+704 bps), Industrials (+654 bps) and Real Estate (+464 bps) while no sector had a negative contribution on an absolute basis.

On a relative basis, positive return contributions from the Information Technology, Industrials, Communication and Financials sectors more than offset a negative contribution from the Energy and Utilities sectors.



Source: Ninepoint Partners

We are currently underweight the Utilities and Industrials sectors and have allocated capital to the Information Technology and Communication sectors in line with our "total-infrastructure" approach.



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Equinix (+183 bps), Microsoft (+151 bps) and Ferrovial (+143 bps). Top detractors year-to-date included Marathon Petroleum (-32 bps), BT Group (-30 bps) and Enterprise Products Partners (-29 bps).

In December, our top performing investments included Gibson Energy (+24 bps), Canadian Pacific Railway (+17 bps) and TC Energy (+13 bps) while BT Group (-24 bps), INWIT (-16 bps) and Prologis (-13 bps) underperformed.

It turned out to be a fantastic year for infrastructure investors, as the asset class rebounded strongly from the late-2018 selloff. Over the course of the year, infrastructure assets clearly benefited from the unique characteristics that have made them so attractive to pension funds and institutional & retail investors since the global financial crisis of 2008/2009. This was a year where both income-oriented and growth-focused investments performed well as investors sought out predictable income streams, leverage to improving economic growth and hard asset protection. Falling interest rates acted as a tailwind for the more rate-sensitive sectors (including Real Estate and Utilities) while improving global growth expectations were supportive of the more GDP-sensitive sectors (including Energy and Industrials). Although it is unlikely that 2020 will be a good as 2019, our ability to significantly flex our sector weightings depending on our outlook for interest rates and economic growth should result in another solid year, in terms of total return.

The Ninepoint Global Infrastructure Fund was concentrated in 30 positions as at December 31, 2019 with the top 10 holdings accounting for approximately 34.9% of the fund. Over the prior fiscal year, 26 out of our 30 holdings have announced a dividend increase, with an average hike of 9.7%. 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 Partners

NINEPOINT GLOBAL INFRASTRUCTURE FUND - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	6.6%	6.6%	7.5%	12.0%	25.7%	12.4%	6.1%	8.4%

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

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