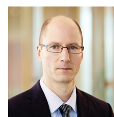
Ninepoint Global Infrastructure Fund

December 2023 Commentary



Jeff Sayer, CFA
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Summary

- Ninepoint Global Infrastructure Fund had a YTD return of 3.79% up to December 31, compared to the MSCI World Core Infrastructure Index with a total return of 1.22%.
- In 2023, the Fed's focus was on tightening monetary conditions to combat inflation, which decreased from 9.1% in June 2022 to 3.1% in November 2023 after significant interest rate hikes.
- The Federal Reserve likely concluded its interest rate tightening cycle in 2023 and signaled a shift towards easier monetary policy in 2024 with expected rate cuts.
- The debate centers on whether the Fed can achieve a soft landing for the economy, and while some volatility is expected in early 2024, the market's performance will depend on earnings growth and broadening investment themes.
- The Fund is currently overweight the Industrials, Materials and Information Technology sectors, market weight the Real Estate and Energy sectors and underweight the Utilities sector.
- The fund was concentrated in 28 positions, with the top 10 holdings accounting for approximately 42.1% of the fund. Over the prior fiscal year, 16 out of our 28 holdings have announced a dividend increase, with an average hike of 4.6% (median hike of 6.0%).

Monthly Update

Year-to-date to December 31, the Ninepoint Global Infrastructure Fund generated a total return of 3.79% compared to the MSCI World Core Infrastructure Index, which generated a total return of 1.22%. For the month, the Fund generated a total return of -0.07% while the Index generated a total return of 0.69%.

Ninepoint Global Infrastructure Fund - Compounded Returns[1] As of December 31, 2023 (Series F NPP356) | Inception Date: September 1, 2011

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	Inception
Fund	-0.1%	3.8%	6.5%	4.1%	3.8%	5.7%	9.4%	6.2%	7.1%
MSCI World Core Infrastructure NR (CAD)	0.7%	1.2%	10.7%	3.5%	1.2%	5.1%	6.4%	8.9%	10.4%

If 2022 was about normalizing interest rate policy, 2023 was all about tightening monetary conditions enough to bring inflation back into line. Considering that US CPI has fallen from 9.1% in June 2022 to 3.1% in November 2023, after 525 bps of tightening, monetary policy seems to have

done its job extremely well. But despite the significantly higher rates, growth investors were able to capitalize on a few key investment themes in 2023, including the development of artificial intelligence software to the point of mainstream acceptance (notably large language models for general-purpose queries) and anti-obesity pharmaceuticals (notably the GLP-1 class of drugs). As a result, this past year could be characterized by huge performance disparities at the S&P 500 sector level, with Information Technology (+56%), Communication Services (+54%) and Consumer Discretionary (+40%) leading the pack while Utilities (-10%), Energy (-5%) and Consumer Staples (-2%) bringing up the rear. Unfortunately, dividend paying stocks and real asset-based investments tend to be concentrated in these lagging sectors, nonetheless we are still reasonably pleased with our absolute performance this year.

Through much of the second half of 2023, we became comfortable with the idea that the final interest rate hike in the US had occurred at the July meeting but assumed that Fed officials would continue to talk tough to prevent a loosening of financial conditions and potentially risk resurgent inflation. We also believed that the final spike in the US 10-year bond yields to just above 5.0% last October effectively tightened financial conditions to a sufficient degree to satisfy the FOMC committee members. We expected the Fed to remain data dependent but would take a more balanced view in pursuit of their dual mandate of full employment and price stability. Reassuringly, the December FOMC meeting not only confirmed that the tightening phase of the interest rate cycle was done, but that the Fed was now looking to pivot to easier monetary policy in 2024. Chairman Powell's press conference was viewed as dovish, and the Summary of Economic Projections indicated a lower terminal rate (consistent with the current range of 5.25% to 5.50%) and three rate cuts (of 25 bps each) in 2024 as opposed to a more hawkish outlook previously forecasted.

The debate now turns to whether the Fed can engineer a soft-landing or whether the lagged impact of 525 bps of tightening will eventually do more serious damage to the US economy. It is perhaps unsurprising that investors cheered the dovishness and continued to push equities higher and bond yields lower in December even after a very good November, given the challenging environment over the past two years. What was surprising to us was the fact that the forward curve almost immediately suggested approximately six rate cuts in 2024. We believe that the 150 bps of anticipated easing in 2024 may not be consistent with a dovish/bullish scenario (growth would likely have to weaken dramatically for that amount of Fed easing, which wouldn't be particularly good for the equity markets), but we think that only a few rate cuts would be needed to improve the odds of a soft-landing. Conceptually, a few rate cuts will be necessary in 2024 to ensure that real interest rates don't become more restrictive as inflation expectations continue to fall through the coming year.

Because we are likely close to the first rate cut of the cycle, but the precise timing is unknown and the future economic environment remains uncertain, we should expect some volatility in the first half of 2024. Further, with the S&P 500 finishing the year at 4770 (or almost 20x 2024 forward earnings according to FactSet), it feels like investors have optimistically pulled forward some returns from 2024 into 2023. Therefore, after a flat year of earnings growth in 2023, a return to earnings growth in 2024 (currently forecasted at 10.4%, again according to FactSet) will be required for the market to continue to move much higher from here. However, if the growth materializes and the rally broadens away from the AI-related and GLP-1-related investment themes and mega-cap tech moves sideways or even underperforms in 2024 (quite possible given the high expectations and high multiples already applied to these equities), our dividend focused mandates should do well on both an absolute and relative basis. As always, we are continually searching for companies that are expected to post solid revenue, earnings and dividend growth but still trade at acceptable valuations

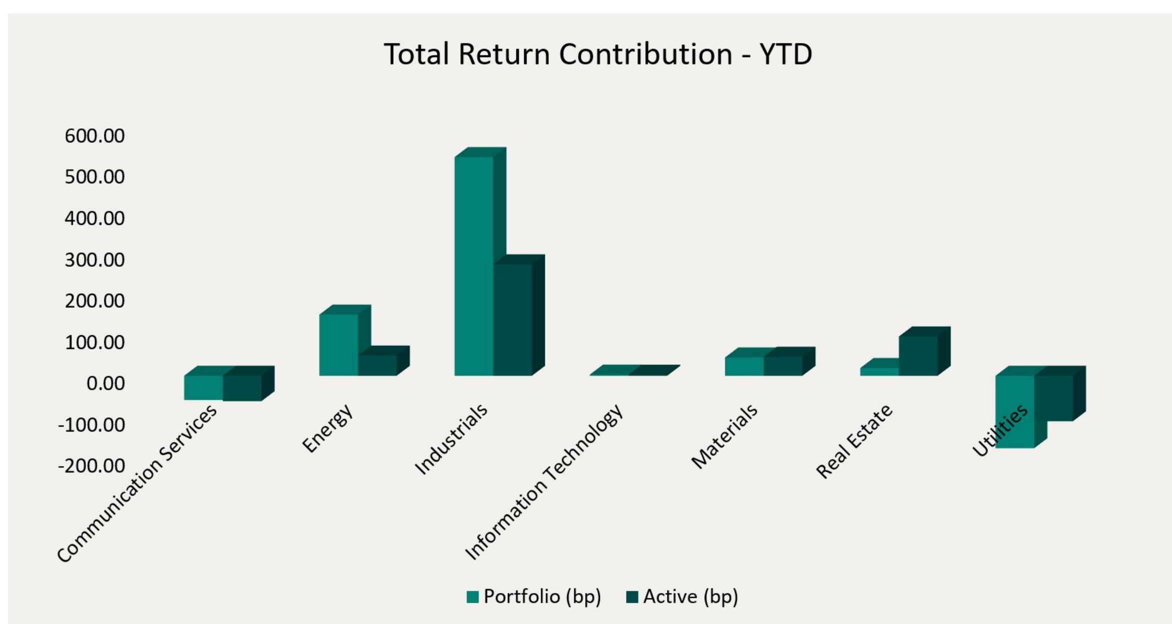
today.

For the Ninepoint Global Infrastructure Fund, we are concentrating our research efforts on high quality, dividend growth companies given our positive assessment of the risk/reward outlook over the next few years. After assessing relative valuation and earnings growth expectations, we are particularly interested in the equities in the Industrials, Energy and Renewables sectors (even after some disappointing performance from the Utilities sectors in 2023) and expect our positioning to reflect this view very early this year. After many years of outperformance from the high growth and high valuation Information Technology sector, if interest rates fall and earnings growth becomes more widespread, we would expect a rotation out of the big winners of 2023 and into undervalued equities more aligned with our dividend-focused mandates in 2024.

Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund by sector included Industrials (+529 bps), Energy (+148 bps) and Materials (+44 bps), while top detractors by sector included Utilities (-175 bps) and Communication (-59 bps) on an absolute basis.

On a relative basis, positive return contributions from the Industrials (+270 bps), Real Estate (+95 bps) and Energy (+49 bps) sectors were offset by negative contributions from the Utilities (-110 bps) and Communication (-61 bps) sectors.

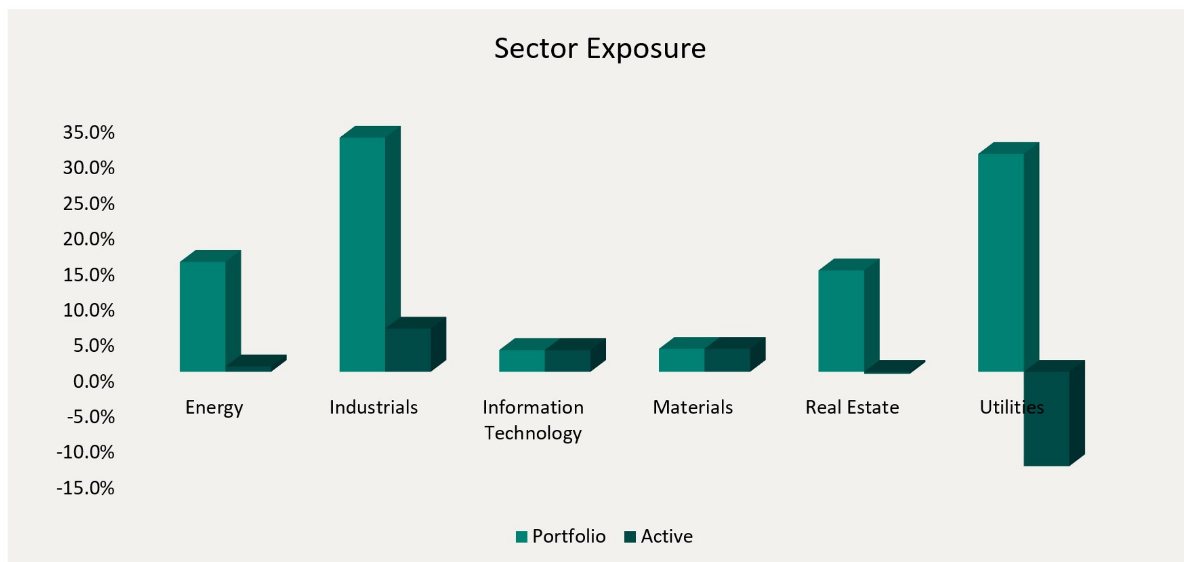
We are currently overweight the Industrials, Materials and Information Technology sectors, market weight the Real Estate and Energy sectors and underweight the Utilities sector. Although the lagged impact of monetary tightening is now slowing inflation, constraining growth, and creating higher unemployment, we expect a pivot to easier monetary policy at some point in 2024. In the meantime, we remain focused on high quality, dividend payers that have demonstrated the ability to consistently generate revenue and earnings growth through the business cycle.



Source: Ninepoint Partners

Despite some projects dealing with funding concerns in a higher interest rate environment, we continue to believe that the clean energy transition will be one of the biggest investment themes for many years ahead. Therefore, we are comfortable having exposure to both traditional energy investments and renewable energy investments in the Ninepoint Global Infrastructure Fund given

the importance of energy sustainability and security of supply around the world.



Source: Ninepoint Partners

The Ninepoint Global Infrastructure Fund was concentrated in 28 positions as at December 31, 2023 with the top 10 holdings accounting for approximately 42.1% of the fund. Over the prior fiscal year, 16 out of our 28 holdings have announced a dividend increase, with an average hike of 13.4% (median hike of 4.6%). 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

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The fund has been named Refinitiv Lipper Fund Awards Canada 2022 Winner, Best Global Infrastructure Equity Fund, over a three-year period out of a total of 13 funds ending July 31, 2022.

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The Refinitiv Lipper Fund Awards, granted annually, highlight funds and fund companies that have excelled in delivering consistently strong risk-adjusted performance relative to their peers.

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[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, 2023; 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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