



Ninepoint Global Infrastructure Fund

January 2020 Commentary

Year-to-date to January 31, the Ninepoint Global Infrastructure Fund generated a total return of 6.57% compared to the MSCI World Core Infrastructure Index, which generated a total return of 4.46%. After a broad-based rally in 2019, the powerful rebound continued in January, although volatility did pick up in the back half of the month.

Investment Team



Jeff Sayer, CFA
Vice President, Portfolio
Manager

As we've discussed in prior commentaries, the equity markets have been flip-flopping back and forth between outperformance of momentum or growth factors and outperformance of value or cyclical factors since last summer. Looking at various indicators, we've found that the shape of the US 2-year/10-year yield curve has provided reasonably reliable signaling for the rotations. For example, the curve steepened from 17 bps to 35 bps last December, which supported a value/cyclical rally and, given our more defensive positioning, caused our funds to slightly underperform during the final month of the year. However, expectations for a sharp economic rebound proved premature and when the ISM Manufacturing PMI declined to 47.8 in December from 48.1 in November (thus remaining in contraction territory) the yield curve promptly flattened from 35 bps to a low of 16 bps in January. Momentum/growth and defensives rallied, including many of our quality-value stocks, infrastructure holdings and REITs, and we posted a solid month on both an absolute and relative basis.

Despite the December data, we still believe that the global economy is working through a mid-cycle correction as central banks around the world ease monetary conditions and inject liquidity into the financial system. In our most recent commentary, we suggested that although many risks remained unresolved, the environment looked relatively benign for investors, with some forecasters even calling for a "goldilocks" economy. Our biggest concern was valuation and we pointed out that much of the 2019 rally was driven by multiple expansion to more than 19x forward earnings as opposed to earnings growth. In the United States, impeachment proceedings and the Democratic Party presidential primaries loomed as potential triggers for what would have been a normal, healthy correction. But as always seems to be case, something we had never even imagined has materialized to threaten the rally.

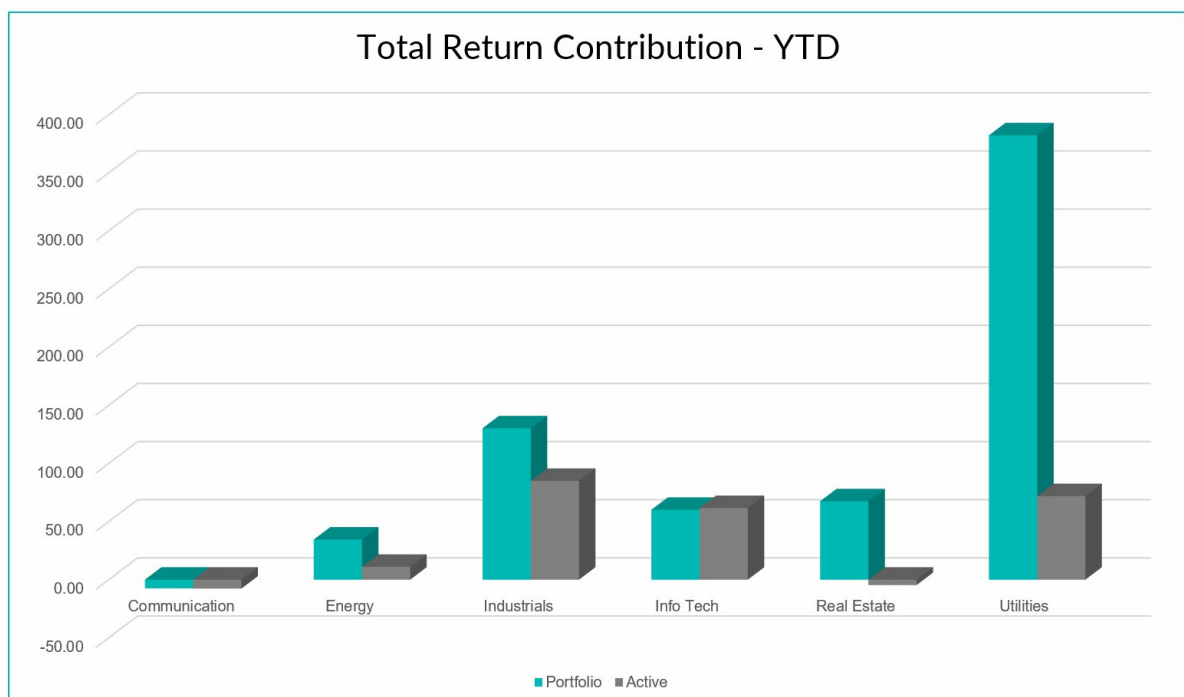
In mid-January, we began reading early reports of a novel coronavirus outbreak centered around Wuhan, the capital of Hubei province in China. We will leave a discussion regarding the science of the virus to the experts but, fully aware of the loss of life and suffering of millions of people, we must try to make sense of the outbreak from an investment perspective. Importantly, we believe that China has taken extraordinary measures to attempt to stop the spread of the infectious disease before it becomes a pandemic. However, the economic fallout will likely be significant given the unprecedented quarantine and forced closures across the country. Based on similar shocks that have occurred in the past, such as the SARS outbreak, the impact on equities should prove temporary and the markets should rebound sharply once the growth rate of new cases slows.

Having said that, the medical community faces a tremendous amount of work before the WHO can declare an end to this emergency.

Although the equity markets have been remarkably resilient, it is too early to declare victory and we plan to remain relatively defensively positioned until we can see signs that the spread of the infection is controlled. Assuming successful containment of the virus, cyclical, economically-sensitive sectors of the market will likely outperform during the recovery. As the global PMIs rebound, we will rely on our investment process to identify these types of investment opportunities and will rebalance our portfolios accordingly.

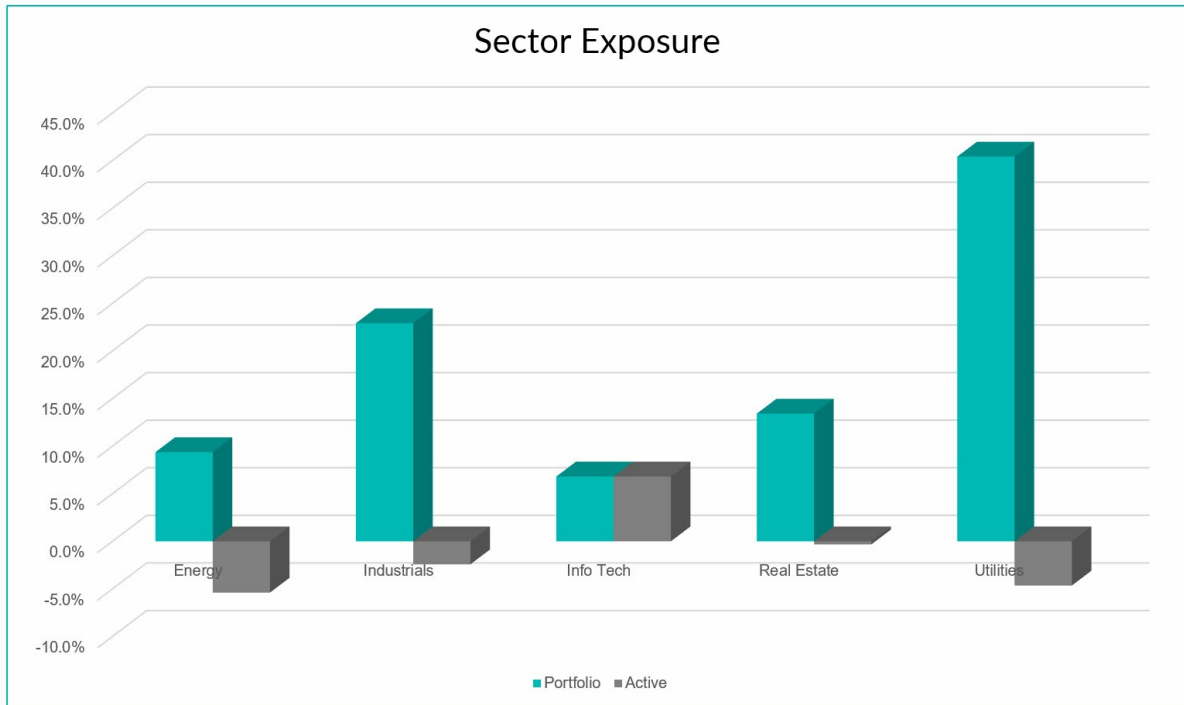
Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund by sector included Utilities (+382 bps), Industrials (+130 bps) and Real Estate (+67 bps) while only the Communication sector had a negative contribution on an absolute basis (-7 bps).

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



Source: Ninepoint Partners

We are currently underweight the Energy, Utilities and Industrials sectors and have allocated capital to the Information Technology sector consistent with our “total-infrastructure” approach.



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Veolia (+46 bps), Enel (+45 bps) and NextEra (+44 bps). Top detractors year-to-date included NRG Energy (-17 bps), BT Group (-7 bps) and Pembina Pipeline (-1 bps).

We've often discussed our "total-infrastructure" approach, where we've placed a greater emphasis on infrastructure assets tied to technology, communication and ecommerce that are essential to the functioning of a modern economy. More specifically, aerospace & defense contractors, cloud computing & broadband providers, cell phone towers, data centers, distribution & logistics facilities and payment networks will continue to feature prominently in our portfolios. However, we've seen a new investment theme emerge and we are positioning to take advantage of the trend while still in its early stages.

From our perspective, ESG (environmental, social and governance) investing has been far more important to European investors than North American investors for several years now. It has always made good fundamental business sense but seemed to be more of a marketing angle as opposed to a source of outsized investment performance. But over the past year or so, investors have shown a clear preference for utilities and related businesses in the renewable energy sector. Wind and solar power assets and companies involved in the development of renewable power generation are now garnering premium multiples and are outperforming their peers. We have identified several interesting opportunities and we look forward to discussing various specific investments in coming commentaries.

The Ninepoint Global Infrastructure Fund was concentrated in 29 positions as at January 31, 2020 with the top 10 holdings accounting for approximately 35.7% of the fund. Over the prior fiscal year, 28 out of our 29 holdings have announced a dividend increase, with an average hike of 11.3%. 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 RETURNS¹ AS OF MARCH 31, 2020 (SERIES F NPP356)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	-9.6%	-7.3%	-7.3%	-6.9%	1.9%	4.9%	3.0%	6.5%
Index	-8.9%	-11.0%	-11.0%	-9.7%	-5.4%	5.9%	6.3%	12.0%

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 January 31, 2020; e) 2011 annual returns are from 09/01/11 to 12/31/11.

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