Ninepoint Global Infrastructure Fund

January 2022 Commentary

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Vice President, Portfolio Manager

Year-to-date to January 31, the Ninepoint Global Infrastructure Fund generated a total return of -3.64% compared to the MSCI World Core Infrastructure Index, which generated a total return of -2.85%. After a solid 2021, the broad equity markets suffered a terrible start to 2022, with the S&P 500 having its worst month since March 2020 (coinciding with peak fear of the Covid-19 pandemic) at -5.2% on a total return basis and the Nasdaq composite having its second worst January on record (ranking only behind January 2008) at -9.0% on a total return basis.

We've talked about the drivers of volatility in the late-November to December period in prior commentaries. The trading wobble was triggered by the identification and rapid spread of the Covid-19 Omicron variant and the hawkish "Powell Pivot" during testimony before the Senate Banking Committee, however equities experienced a solid seasonal rally to end the year. An unwillingness to sell winners (and face a tax hit) likely provided a strong tailwind but sellers began to hit bids almost immediately in January, quickly reversing December's gains. The January correction was significant and, looking at the S&P 500 specifically, the forward earnings multiple derated back to pre-pandemic levels of approximately 20x from a high of approximately 24x in 2021.

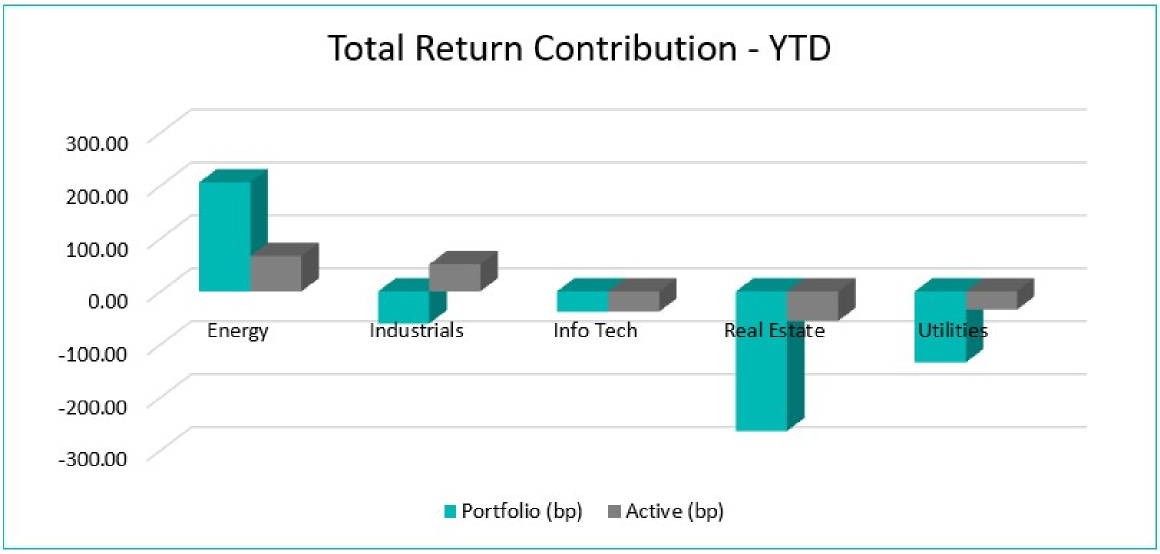
Investors seemed to suddenly internalize that the Fed was taking the threat of inflation seriously and a cycle of interest rate hikes was on the horizon. Notably, the December US CPI print, released January 15th, indicated that prices rose 7.0% over the prior twelve months (and ex-food and energy increased 5.5% over the prior year). This was the highest headline inflation reading since June 1982 and the highest core reading since February 1991. So, although the Fed's official statement and dot plot released after the December 15th FOMC meeting moved in line with market expectations (asset purchases were tapered by $30 billion per month from $15 billion per month and the number of expected rate hikes moved from two to three in both 2022 and 2023), market expectations became even more hawkish in January. At peak fear, implied interest rate probabilities suggested at least five interest rate hikes of 25 bps each in 2022 and discussions started about the potential for a 50 bps hike to start the cycle in conjunction with immediate quantitative tightening.

From our perspective, we think that fears related to an aggressive interest rate cycle will prove to be unfounded. Admittedly, every FOMC meeting in 2022 should be expected to be "live" but we are still reasonably confident that the Fed will continue to be data dependent. Further, we are cognizant that this cycle is tied to the real threat of inflation as opposed to recent interest rate cycles, which were primarily driven by the desire to normalize policy after emergency measures. But, if inflation readings began to moderate (trending toward normal) and the economy begins to decelerate (trending toward normal) as inventory levels and consumption patterns normalize, we think that there will be justification to slow the pace of rate hikes by mid-year and reassess the path of future rate hikes.

If this scenario plays out and the pace of interest rate hikes slows relative to expectations, history has shown that the equity markets can continue to rally through a period of rising interest rates. It is only when the yield curve inverts, and the Fed ends the tightening cycle that we need to prepare for a downturn. Although investors should expect choppier performance throughout the coming year, especially leading up to and coming out of the initial interest rate hike, with long-term interest rates still below 2.0% and consensus earnings growth of 10% in 2022 (according to FactSet), 2022 should be another year of positive returns for the broad equity markets, irrespective of the difficult January.

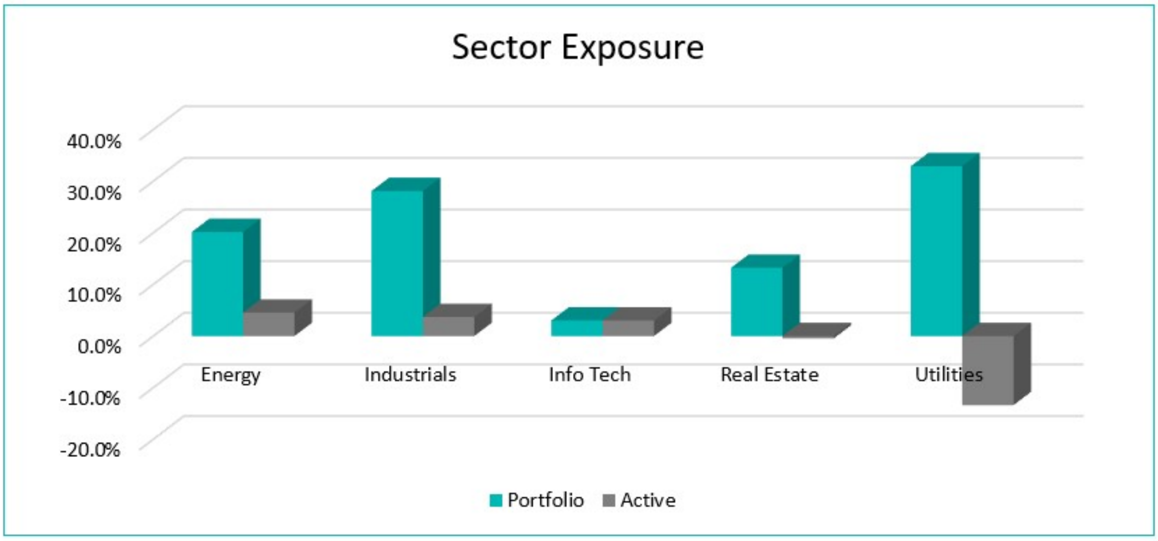
Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund by sector included only Energy (+182 bps) while top detractors by sector included Real Estate (-247 bps), Utilities (-104 bps) and Industrials (-131 bps) on an absolute basis.

On a relative basis, positive return contributions from the Energy (+45 bps) and Industrials (-18 bps) sectors were offset by negative contributions from the Real Estate (-39 bps), Information Technology (-30 bps) and Utilities (-3 bps) sectors.



Source: Ninepoint Partners

We are currently overweight the Energy, Industrials and Information Technology sectors, market weight the Real Estate sector and underweight the Utilities sector (due to the threat of rising rates in 2022 and 2023). The Oil & Gas Storage & Transportation sub-industry has been the clear leader year-to-date, and we have recently increased our exposure at the expense of the Utilities sector. Should we see the renewable energy and clean power technology trade regain some traction, we are prepared to repurchase some of our prior holdings that were sold in 2021. Fundamentally, we are quite happy to hold either or both traditional fossil fuel plays and green energy plays whenever our investment process indicates a favourable tradeoff between risk and reward.



Source: Ninepoint Partners

The Ninepoint Global Infrastructure Fund was concentrated in 30 positions as at January 31, 2022 with the top 10 holdings accounting for approximately 37.9% of the fund. Over the prior fiscal year, 20 out of our 30 holdings have announced a dividend increase, with an average hike of 6.1% (median hike of 6.9%). 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] AS OF JANUARY 31, 2022 (SERIES F NPP356) | INCEPTION DATE: SEPTEMBER 1, 2011

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	-3.6%	-3.6%	-1.0%	3.2%	8.8%	11.2%	9.2%	7.6%	7.7%
MSCI World Core Infrastructure NR (CAD)	-2.9%	-2.9%	2.3%	4.0%	13.9%	8.1%	9.6%	11.8%	12.1%

[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, 2022; 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.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: capital depletion risk; concentration risk; credit risk; currency risk; cybersecurity risk; derivatives risk; exchange traded funds risk; foreign investment risk; income trust risk; inflation risk; interest rate risk; liquidity risk; market risk; regulatory risk; series risk; short selling risk; small company risk; specific issuer risk; tax risk.

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