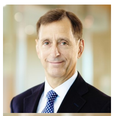
Ninepoint Fixed Income Strategy

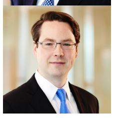
July 2020 Commentary

*Monthly commentary discusses recent developments across both the **Diversified Bond** and **Credit Income Opportunities Funds**.*

Investment Team



Mark Wisniewski,
Partner, Senior Portfolio Manager

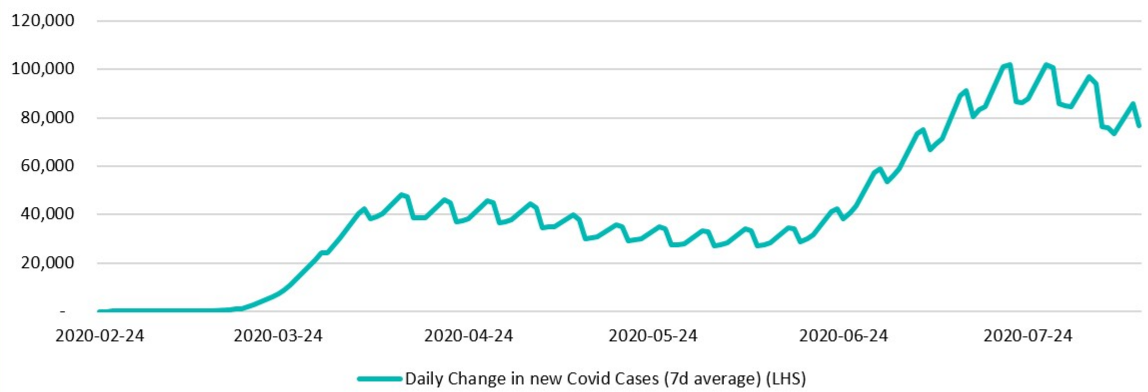


Etienne Bordeleau-Labrecque, MBA, CFA
Vice President, Portfolio Manager

Macro

The bullish tone established in markets over the past few months has carried over into the summer. At the time of writing, the S&P 500 is within reach of all-time highs and credit spreads have retraced about 90% of their March/April widening. Globally, economic data has surprised to the upside, even though the pace of new infections in the US has continued to increase throughout the summer (Figure 1) and most states have either stopped or reversed their re-openings. Elsewhere in the world, Covid infections seem under control and new clusters are being effectively dealt with.

Figure 1: The Rate of New Infections in the US is high, but declining
Daily Change in New Covid Cases (7 day average)



Source: Bloomberg

For now, at least, it seems that even if things don't go back to "normal", the odds of going back to full lockdown are very low. The real question for us remains what does the new normal look like and, once the initial bounce in the data from getting out of the full lockdown is behind us, how fast does the world economy return to full capacity?

Even assuming vaccines are approved and in widespread circulation by 2021Q2, that is still a full year away. There must be a limit to how long fiscal policy can keep the millions of people and small business with no income or revenues afloat. Undoubtedly the damage to the demand and supply side of the economy will be important if we have another 12 months of this. And unfortunately, the sectors most affected by this situation (services, accommodation, tourism, etc.) are also those that are most vulnerable (SMEs and low wage workers). Until now, those who have lost their jobs have benefited from generous emergency support from governments (e.g. CERB in Canada, enhanced unemployment benefits in the US). However, that cannot go on forever; federal budget deficits for 2020 are already forecasted to be 11.2% of GDP in Canada and 17.4% in the US[i]. Canada's credit rating has already been downgraded one notch by Fitch, a rating agency. At the same time, if those benefits expire, what will these people do? The various small businesses where many lower income earners work have either disappeared or don't have the same level of business as they used to. Are we throwing good money after bad by keeping many of these businesses afloat, even if the business model doesn't work in the new normal? We do not know what the answers to these questions are, and no doubt policy makers across the world are pondering what to do next. It seems that either way, these policy choices boil down to a gigantic intertemporal trade-off: suffer sharper pain now (i.e. let benefits expire) or avoid immediate pain and suffer for longer later (i.e. massive debt overhang).

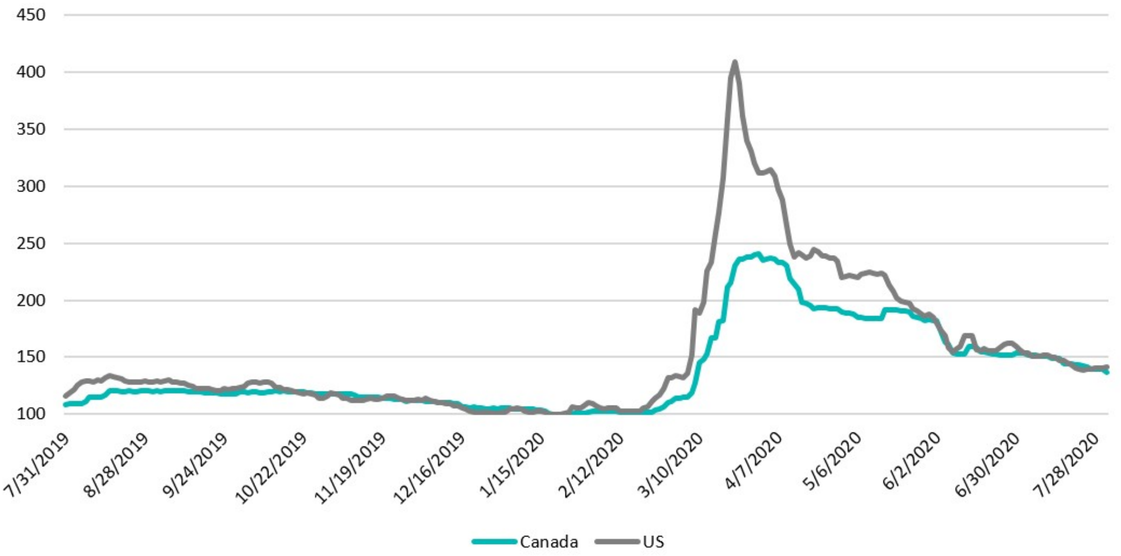
Our hunch is that politicians facing re-election will be happy to kick the can down the road and keep spending to keep the economy artificially afloat, particularly when central banks, implicitly or explicitly, have seemingly unlimited room to buy government bonds and expand unconventional monetary policy. The US election in November is complicating this process, but ultimately no political party will want to be held responsible for the consequences of stopping assistance. While we absolutely disagree with the premises of the current market narrative, this probably means we remain in this risk-on, nothing-can-go-wrong paradigm for a little while longer.

Credit

In credit, the song remains the same. Low primary issuance (supply) coupled with record low interest rates (hunt for yield) and strong industry inflows (cash to be deployed) has created a very solid technical backdrop. In the US investment grade market, we have now retraced 90% of the Spring widening. In Canadian IG, the market never widened as much as the US as its always a bit slower to react, so the same figure now stands at 75%[ii]. Still, spreads are about 40% wider than the cycle tights we reached in January (Figure 2), making investment grade bonds attractive, on a relative basis. Barring an external shock, we expect this technical backdrop to push spreads tighter into the fall, but perhaps at a slowing pace.

Figure 2: Corporate Credit Spreads Have Tightened Materially

Spread To Worst, Indexed to 100 at Cycle Lows in January 2020



Source: Bloomberg

Diversified Bond Fund (DBF)

The DB fund performed well in July, returning 1.4%. The portfolio composition continues to be relatively stable. We have maintained our short position in HYG, monetizing the calls we owned against it. Duration edged slightly higher as we bought a few US 30-year government bonds to round up our Government Bond exposure to 10%. In high yield, we continue to favour a defensive approach, sticking with higher quality crossovers and fallen angels. We are content with the current portfolio positioning, as it provides a good balance between credit exposure (which is benefiting from the factors mentioned above) and defensive positions (i.e. government bonds and short HYG).

Diversified Bond Fund Portfolio Characteristics

	Limits	Mar 2018	Jun 2018	Sept 2018	Dec 2018	Mar 2019	Jun 2019	Sept 2019	Dec 2019	Mar 2020	June 2020	Jul 2020	Outlook
Government Bonds	100%	0%	-4%	2%	1%	7%	22%	28%	13%	9%	9%	10%	↔
Investment Grade	80%	56%	66%	73%	76%	72%	58%	61%	58%	78%	80%	79%	↔
High Yield	40%	24%	17%	16%	13%	14%	9%	7%	6%	13%	11%	11%	↔
Emerging Market Governments	10%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Preferred Equities	10%	6%	6%	6%	2.5%	0.7%	0%	0%	0%	0%	0%	0%	↔
Common Equities & ETFs	10%	0%	0%	1.5%	1.5%	4.3%	2.4%	-1.3%	0%	0%	-6%	-6%	↔
Derivatives	+/- 2.5%	+0.5%	-0.1%	-0.05%	0.0%	0.0%	-0.2%	0.0%	0.2%	0%	0%	0%	N/A
Cash and Equivalents		14%	15%	1.5%	6%	2%	9%	6%	22%	0%	6%	6%	↔
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Duration	1 to 8 years	2.1	2.3	1.0	2.4	3.4	5.4	6.5	4.3	3.8	5.9	6.3	↔
Geographic (% North America)	>75%	90%	89%	93%	91%	87%	85%	86%	85%	92%	92%	92%	↔
Unhedged FX Exposure	20%	0%	0%	0%	0%	0%	6%	5%	3%	3%	5%	6%	↔

Source: Ninepoint Partners

Credit Income Opportunities Fund (Credit Opps)

The Credit Opps continues to perform very well, with the fund returning 3.37% in July. As mentioned last month, we have started to slowly reduce credit risk in the portfolio, taking HY down to 20% from 28%. Leverage is also mildly lower, at 1.61x; expect us to continue to decrease leverage in the coming months. Over the last quarter we added two loans to the portfolio. In this environment loans have become very attractive investments as they earn roughly double the yield on a high yield bond and we are senior secured in the capital structure.

Given the current backdrop, the Credit Opps is uniquely positioned to deliver a solid year to investors. The fund yields 7.1%, has very low duration risk and benefits from credit hedges (HYG short) to protect the downside, should credit volatility increase in the coming months.

Credit Income Opportunities Portfolio Characteristics

	Limits	Oct 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Jul 2020	Outlook
Government Bonds	100%	0%	0%	6%	0%	18%	0%	0%	0%	**0%**	↔
Investment Grade	100%	58%	55%	58%	53%	68%	64%	72%	65%	**82%**	↑
High Yield	40%	29%	24%	19%	16%	10%	6%	22%	28%	**20%**	↔
Private Loans	10%	3%	3%	2%	3%	2%	2%	4%	7%	**10%**	↔
Preferred Equities	10%	4%	4%	0.5%	0%	0%	0%	0%	0%	**0%**	↔
Common Equities & ETFs	10%	0%	0%	0%	0%	-7%	-7%	-10%	-15%	**-15%**	↔
Derivatives	+/- 2.5%	0%	0%	0%	-0.4%	0%	0%	0%	1%	**0%**	N/A
Cash and Equivalents		6%	14%	15%	28%	8%	32%	12%	8%	**3%**	↓
Total		100%	100%	100%	100%	100%	100%	100%	100%	**100%**	
Duration	0 to 5 years	2.5	2.1	2.9	2.2	2.9	1.7	2.6	3.3	**3.1**	↔
Leverage	0-4x	0.7x	0.7x	1.0x	1.0x	0.77x	1.04x	0.87x	1.67x	**1.61x**	↓
Unhedged FX Exposure	>25%	0%	0%	0%	2.7%	5.1%	-3.2%	0%	0.3%	**0.6%**	↔

Source: Ninepoint Partners

Conclusion

Enjoy this beautiful summer and until next month.

Mark & Etienne
Ninepoint Partners

i Source: Bloomberg Private Forecaster Consensus Estimates, as of August 11th 2020.

ii These figures are calculated using the ICE Bond Indices for US and Canadian Corporate Investment Grade Indices.

NINEPOINT DIVERSIFIED BOND CLASS - COMPOUNDED RETURNS[1]

AS OF JULY 31, 2020 (SERIES F NPP221)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	1.4%	5.5%	3.8%	4.2%	5.8%	3.8%	3.7%	4.8%

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS[1]

AS OF JULY 31, 2020 (SERIES F NPP118)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	1.4%	5.7%	3.9%	4.3%	6.0%	4.0%	3.8%	4.7%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS[1]

AS OF JULY 31, 2020 (SERIES F NPP507)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	3.4%	6.1%	9.6%	5.5%	7.0%	4.5%	4.7%	4.7%

[1] All Ninepoint Diversified Bond Fund/Class 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 July 31, 2020 [1] All Ninepoint Credit Income Opportunities Fund returns and fund details are a) based on Class F units (closed to subscriptions); b) net of fees; c) annualized if period is greater than one year; d) as at July 31, 2020.

The Risks associated worth investing in a Fund depend on the securities and assets in which the Funds invests, based upon the Fund's particular objectives. There is no assurance that any Fund will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Fund will be returned to you. The Funds are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Fund's prospectus or offering memorandum before investing.

Ninepoint Credit Income Opportunities Fund is offered on a private placement basis pursuant to an offering memorandum and are only available to investors who meet certain eligibility or minimum purchase amount requirements under applicable securities legislation. The offering memorandum contains important information about the Funds, including their investment objective and strategies, purchase options, applicable management fees, performance fees, other charges and expenses, and should be read carefully before investing in the Funds. Performance data represents past performance of the Fund and is not indicative of future performance. Data based on performance history of less than five years may not give prospective investors enough information to base investment decisions on. Please contact your own personal advisor on your particular circumstance. This communication does not constitute an offer to sell or solicitation to purchase securities of the Fund.

Ninepoint Partners LP is the investment manager to the Ninepoint Funds (collectively, the "Funds"). Commissions, trailing commissions, management fees, performance fees (if any), other charges and expenses all may be associated with mutual fund investments. Please read the prospectus carefully before investing. The indicated rate of return for series F units of the Fund for the period ended July 31, 2020 is based on the historical annual compounded total return including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The opinions, estimates and projections ("information") contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners LP. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners LP is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540