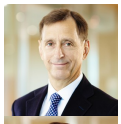
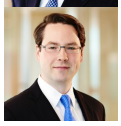
Ninepoint Fixed Income Strategy Market View

June 6, 2019

Investment Team



Mark Wisniewski,
Partner, Senior Portfolio Manager



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

Chris Cockeram, MBA, CFA
Vice President, Associate Portfolio Manager

Given all the volatility in rates and equity markets, we thought it might be a good idea to give you a quick update.

Since we last wrote about markets in our April commentary, a lot of things have happened or changed:

1. US/China trade tensions are here to stay; it's not just about the trade deficit, it is about technology and the US hegemony and making sure it stays like that. The tone on both sides has gone from bad to worse and we do not think that this will be solved any time soon. If they do impose tariffs on the last $300bn of Chinese imports, the average American's purchasing power will be seriously impacted. Previous rounds of tariffs were on intermediate goods, not consumer products. Now the pain will be felt more strongly by the end consumer. The escalation of trade tensions will not only negatively impact China, it will hurt the US as well.

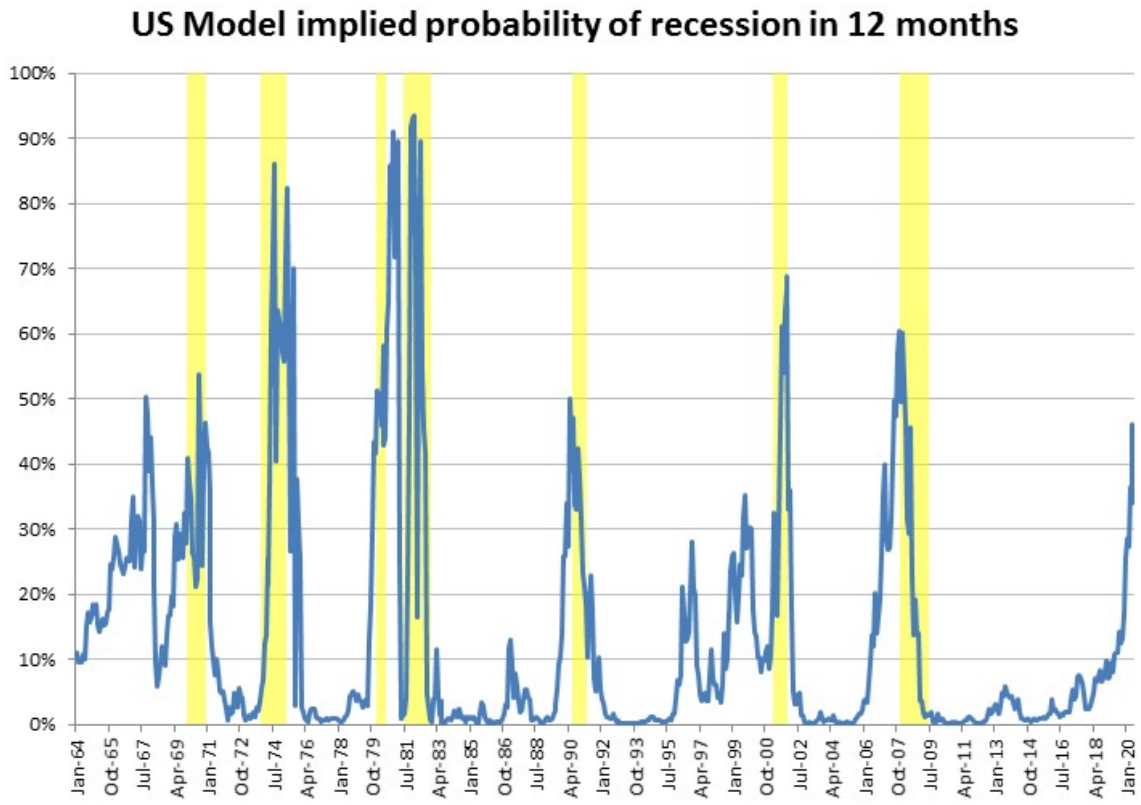
2. After improving somewhat in March, Global growth data is weakening in Asia, Europe, Latin America and, more importantly, the US. For some reason Canadian data has come in strong, but given our correlation with the US, we should soon follow. Commodities in a slow growth environment will become particularly vulnerable and that will be problematic for Canada. Oil Prices are already down more than 20% from their April highs.

3. Most recently, the straw that broke the camel's back is the US threatening to impose tariffs on Mexico until they stop the migration from Central America to the US. Mexico was in the process of ratifying the new NAFTA when the US announced this. What this tells Mexico and the rest of the world, including us, is that it doesn't matter what type of trade deal you strike with Trump, he can turn around the next day and rip it up. That makes it less likely that anyone else (China, Europe, India, etc) would want to waste their time negotiating with Trump on trade. Lastly, Mexico's economy is very highly integrated with the US economy. Supply chains will be hurt and this will lead to increased uncertainty, higher inflation and lower GDP growth.

As the result of this, the Federal Reserve is now expected, by market participants, to cut rates at least 2 times this year. The big question is no longer if, but when that will happen. Some speculate that it could happen as soon as the July FOMC meeting. In a speech yesterday at a Fed event, Chairman Powell said that the FOMC would assess the impact of those trade developments and act in such a way as to extend the economic cycle as long as possible (i.e. cut rates if the outlook deteriorates). This hints that they want to see what happens (at the very least at the G20 summit late June) before making a move. We do not think that the Fed wants to cut rates too early, but it

might become a necessity. Unfortunately, vindicating Trump's recklessness.

The bond market has reacted quickly to all the above.The yield curve is now inverted by more than 20bps. Based on our recession model, this implies a 46% chance of a recession in the US 12 months from now. Of course this is simply a model, but it goes to show how quickly things have deteriorated.



Source: Ninepoint Partners

In this context, it still feels like equities and credit are living in a fantasy, acting as if a Fed rate cut is good for them. We strongly disagree. The Fed cuts rates because the economy is deteriorating, which is bad for earnings and multiples. Accordingly, previous historical episodes of rate cuts are associated with low equity returns and double the usual volatility.

From a portfolio positioning perspective we are preparing for the slowdown and potential of 2020 recession. We have continued to high grade the portfolio, sell down lower rated credit, add government bonds and extend duration.

As always, please reach out to us with any questions or comments. Happy to expand on topics of particular concern/interest.

The Bond Team: Mark, Etienne and Chris

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	1.3%	1.3%	0.7%	1.6%	4.8%	3.6%	3.2%	4.5%

NINEPOINT DIVERSIFIED BOND CLASS - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	1.3%	1.3%	0.7%	1.6%	4.6%	3.4%	3.1%	4.6%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	0.6%	0.6%	1.1%	1.3%	5.1%	3.4%	4.1%	4.8%

[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 April 31, 2019; e) 2010 annual returns are from 08/05/10 to 12/31/10.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: capital depletion risk (Series T, Series FT, Series PT, Series PFT, Series QT, and Series QFT units only); concentration risk; credit risk; currency risk; cybersecurity risk; derivatives risk; exchange traded funds risk; foreign investment risk; inflation risk; interest rate risk; regulatory risk; securities lending, repurchase and reverse repurchase transactions risk; series risk; short selling risk; substantial unitholder risk; tax risk.

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 April 31, 2019 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