Ninepoint Global Infrastructure Fund

May 2019 Commentary

Investment Team

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Year-to-date to May 31, the Ninepoint Global Infrastructure Fund (Series F) generated a total return of 16.04% compared to the MSCI World Core Infrastructure Index, which generated a total return of 14.69%. For the month, the Fund generated a total return of 0.05% while the Index generated a total return of 0.10%. After a solid recovery rally to start the year, markets faltered in May as US-China trade negotiations broke down, heated rhetoric escalated into a new round of tariffs and risk appetite deteriorated.

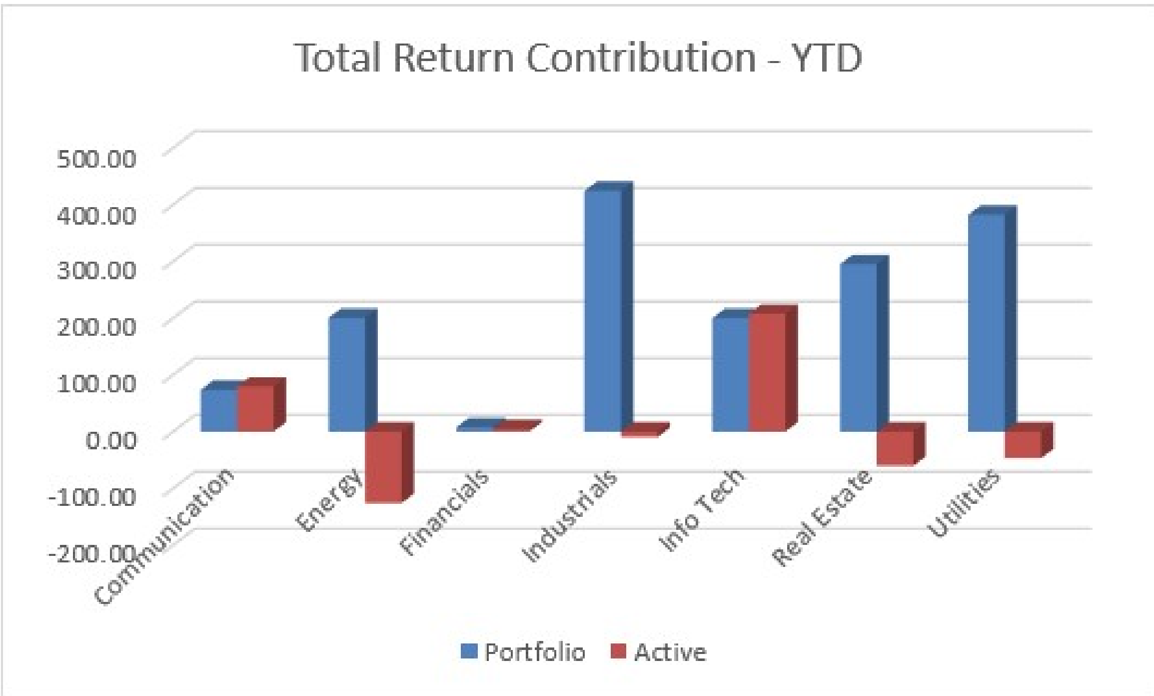
Sometime over the course of the first weekend of May, just when it appeared that the US and China were close to resolving their trade dispute, negotiations took a turn for the worse. Impetuously, President Trump tweeted his intention to maintain tariffs at 25% on the original basket of $50 billion worth of goods, boost tariffs from 10% to 25% on the second basket of $200 billion worth of goods and threatened incremental tariffs of 25% on a third basket of approximately $300 billion worth of goods. In an obvious retaliation, China raised tariffs on $60 billion worth of goods at a rate between 10% to 25% depending on the specific product. Despite statements to the contrary from the US Administration, the threat of tariffs on the third basket of $300 billion worth of goods is extremely concerning as they would have a significant impact on the US consumer if enacted.

The ultimate objective of the trade dispute is now even questionable with the emergence of two new battlegrounds. First, the US Government has blacklisted the Chinese firm Huawei, a global telecommunications company and a leader in 5G technology in a calculated move designed put political pressure on Beijing. Banning the transfer of US technology to Huawei would effectively cripple the Company, essentially impeding China's official plan for continued social and economic development. Second, Trump has threatened tariffs of 5% (with staged escalation to 25% over time) on goods imported from Mexico if immigration from Central America through Mexico and into the United States isn't stopped. Given the high degree of integration between the US and Mexican economies, including important manufacturing supply chains, these tariffs would be extremely damaging to both Mexico and the United States. Obviously, the President's willingness to use trade threats as leverage to achieve geopolitical objectives creates an entirely new level of uncertainty for investors.

We have long held the view that the global economy (and most importantly the US) would avoid a recession despite weakening forward-looking indicators, most notably the global composite PMIs and the forward yield curve. However, we must now acknowledge that the risk of a more severe economic downturn is rising but have identified three potential developments that could extend the cycle. First, the final tranche of tariffs on the remaining $300 billion worth of goods from China may not be enacted and President Trump may be willing to settle for a relatively weaker deal to improve his re-election chances in 2020. Second, tariffs on imported goods from Mexico may be avoided if Trump receives enough assurances that Mexican authorities will step up their efforts to secure the border (or some other similar type of concession). Finally, the FED may aggressively lower the federal funds rate in a preemptive move to stimulate the domestic economy, boosting growth and inflation.

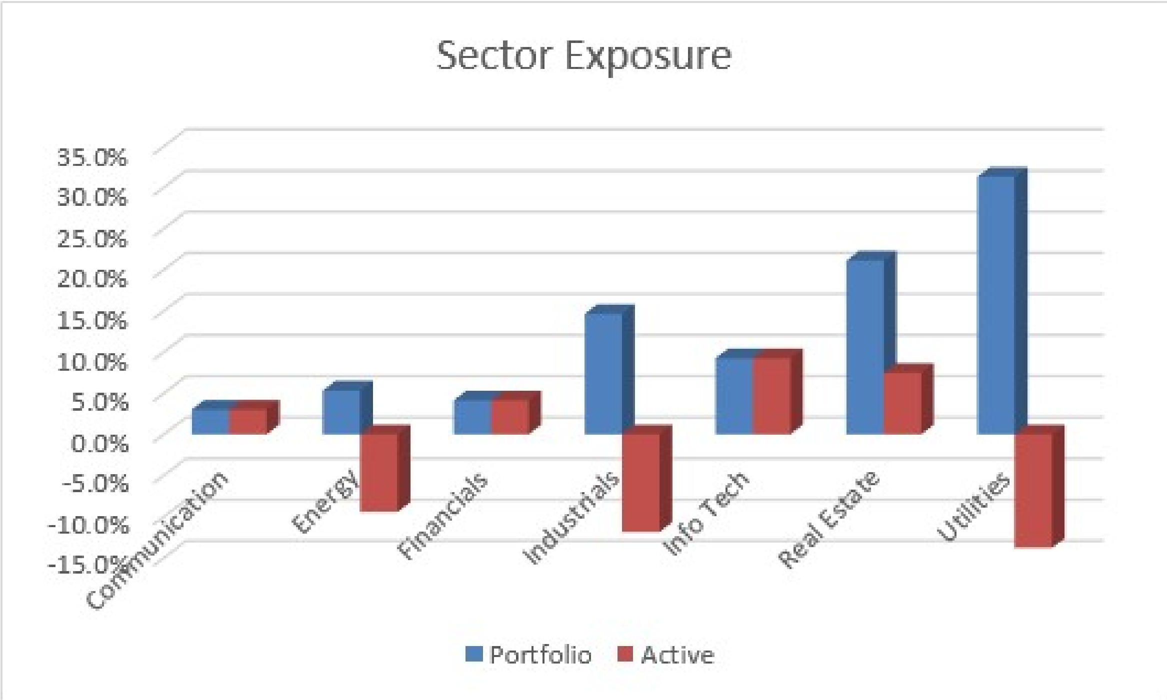
The markets have clearly put a tremendous amount of faith in the FED's ability to rescue the economy from any potential economic fallout from Trump-imposed tariffs. Based on the forward curve, a 25 bps interest rate cut in July (not coincidentally post the G-20 meeting to be held June 28 to 29, where Trump and Xi could meet face to face) is more likely than not. In fact, a total of three interest rate cuts have been priced in by December 2019/January 2020. We will continue to watch consumer confidence carefully (which improved in May to 134.1, a near 20-year high), jobless claims (which remained near 50-year lows in May) and the unemployment rate (which remained at 3.6% in May, the lowest rate since December 1969) for any signs of an impending economic downturn. As of today, we still believe that a full-blown recession can be avoided if the FED is willing to act quickly in an accommodative manner.

Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund by sector included Industrials (+424 bps), Utilities (+378 bps) and Real Estate (+295 bps) while no sector had a negative contribution on an absolute basis. On a relative basis, positive return contributions from the Information Technology, Communication and Financials sectors more than offset negative contributions from the Energy, Real Estate and Utilities sectors. Note that the underperformance in the Energy and Utilities sectors was primarily due to sector allocation decisions as opposed to individual stock picks.



Source: Ninepoint Partners

We are currently underweight the Utilities, Industrials and Energy sectors and have allocated capital to the Information Technology, Real Estate, Financials and Communication sectors in line with our "total-infrastructure" approach. We also carried a higher than normal cash balance during the month given the uncertainties related to the escalating trade war and the associated potential impact on global growth going forward.



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included American Tower (+115 bps), Equinix Inc (+115 bps) ONEOK (+89 bps). Top detractors year-to-date included CyrusOne (-24 bps), Engie (-18 bps) and Raytheon (-13 bps).

In May, our top performing investments included American Tower (+31 bps), Equinix (+25 bps) and Interxion (+22 bps). Top detractors in May included Vistra Energy (-35 bps), CyrusOne (-21 bps) and BBA Aviation (-20 bps).

In terms of activity during the month, when we read President Trump's tweet regarding the escalation of the trade war with China, we immediately moved to position the portfolio more defensively. We raised our cash position, boosted holdings in rate-sensitive Utilities, boosted holdings in less-cyclical Industrials, boosted defensive holdings in the Real Estate sector and reduced holdings in the Energy and Information Technology sectors. Our performance in May was inline with the market despite being significantly underweight the Utilities sector, which is reflective of this nimble repositioning. However, we are mindful of getting whipsawed by continuing to add aggressively to the Utilities sector here, in the event Trump backpedals from incremental tariff threats or the FED comes to the rescue of the equity markets. Staying disciplined and following our investment process will be key to our continued success.

The Ninepoint Global Infrastructure Fund was concentrated in 30 positions as at May 31, 2019 with the top 10 holdings accounting for approximately 36.7% of the fund. Over the prior fiscal year, 27 out of our 30 holdings have announced a dividend increase, with an average hike of 15.5%. 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 GLOBAL INFRASTRUCTURE FUND - COMPOUNDED RETURNS[1] AS OF SEPTEMBER 30, 2023 (SERIES F NPP356) | INCEPTION DATE: SEPTEMBER 1, 2011

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	-3.8%	-2.5%	-2.3%	-2.2%	0.0%	5.3%	5.9%	6.1%	6.7%
MSCI World Core Infrastructure NR (CAD)	-5.3%	-8.6%	-6.5%	-9.0%	-2.0%	2.2%	4.6%	8.6%	9.7%

[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 May 31, 2019; 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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