Ninepoint Global Infrastructure Fund

May 2020 Commentary

Investment Team

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Year-to-date to May 31, the Ninepoint Global Infrastructure Fund generated a total return of -1.68% compared to the MSCI World Core Infrastructure Index, which generated a total return of -2.07%. For the month, the Fund generated a total return of 3.98% while the Index generated a total return of 4.61%.

As we all know, the COVID-19 outbreak essentially shut down the global economy and triggered the fastest bear market in history, with the S&P 500 falling 35% from February 19 to March 23. However, the market bounced an astonishing 39% to May 29 and has continued to climb through the first week of June. The early part of the move can be explained by the relatively swift and coordinated response, covering emergency monetary measures, aggressive fiscal stimulus, more widespread testing and some tangible progress towards a vaccine. Panic subsided as the threat of a worst-case scenario was reduced and the most dire predictions thankfully failed to come true.

But this recovery rally hasn't only been based on hope, many positive signs have begun to appear over the past couple of months. Importantly, the global growth rate of new cases has slowed to roughly 2% and many countries seem to have the outbreak largely under control. In the United States, the curve of active cases has "flattened" but not "bent" but, crucially, the healthcare system did not reach its breaking point thanks to the tireless efforts of frontline workers. This has allowed a phased reopening of various economies around the world, including the United States and Canada. Although new cases will likely rise as we reduce restrictions, increase mobility and move toward some new form of normal, we have just witnessed the greatest 50-day rally in the history of the S&P 500.

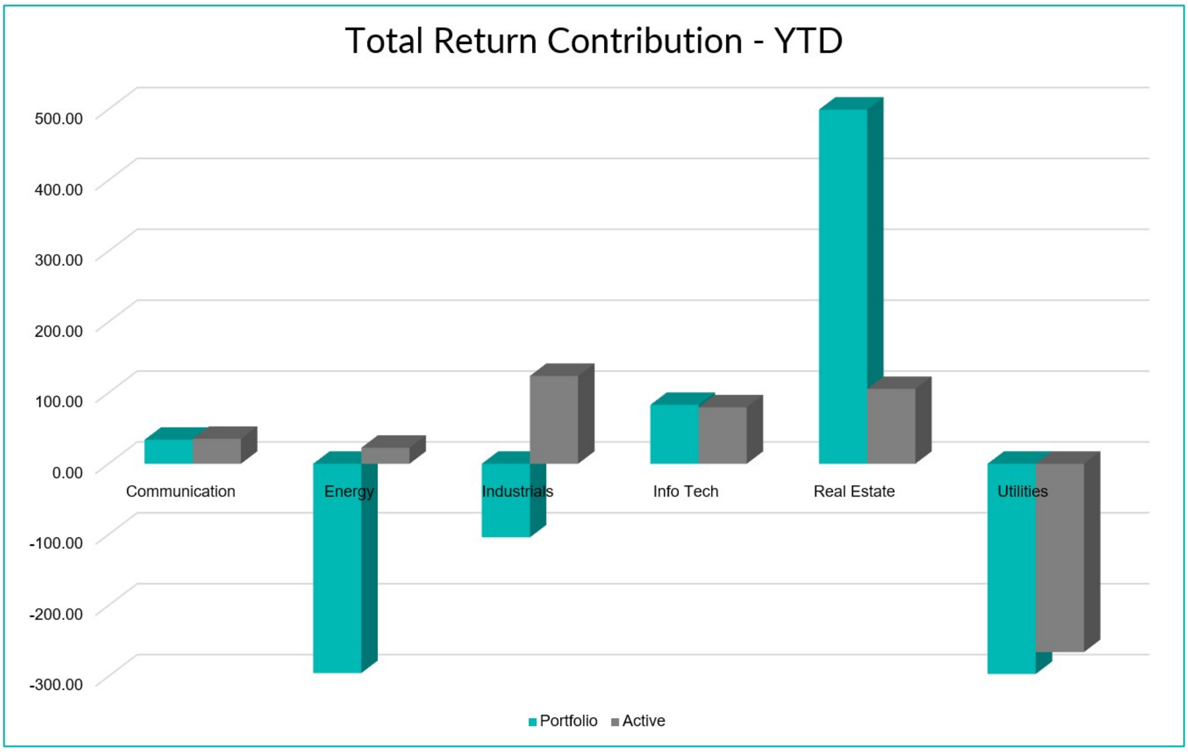
Economic data and commentary from many companies have corroborated that the worst of the downturn has passed. PMIs have clearly bottomed with the JPMorgan Global Composite PMI at 36.3 in May compared to 26.2 in April, the US Composite PMI at 37.0 in May compared to 27.0 in April and the Eurozone Composite PMI at 31.9 in May compared to 13.6 in April. Admittedly, these figures suggest that the global economies contracted in May but, directionally, the trend in the data is improving. Mastercard has also provided some very good granularity on US consumer spending, which showed that payment volumes bottomed the week ending April 14 and have been improving sequentially ever since. But perhaps the most positive surprise came from the US Bureau of Labor Statistics as total nonfarm payroll employment rose by 2.5 million in May, defying expectations of another 7.5 million job losses after 20.5 million job losses in April.

I have talked about thinking of our investable universe in four buckets: certain businesses that will never return to prior levels, quality cyclical business that require a return to economic growth, secular growers that have de-rated relative to historic levels and certain businesses that can thrive in the current environment. Through the downturn we benefitted greatly from an outsized cash position and an emphasis on buckets three and four, but the time has come to broaden our holdings by adding some businesses that fall into bucket number two.

Simply put, the conditions are now in place for a rotation from growth/momentum to value/cyclicals: a steepening yield curve, narrowing credit spreads, directionally improving global PMIs, rising commodity prices and a weakening US Dollar. Although it is hard to estimate the duration or magnitude of this move, after several false starts and potential risks to the trade that include disappointment related to a Phase IV stimulus package, concerns regarding a second wave of infections in the fall or winter and uncertainly surrounding the upcoming US Presidential election, we have added some cyclical exposure to gain leverage to the economic recovery and keep pace with the rally.

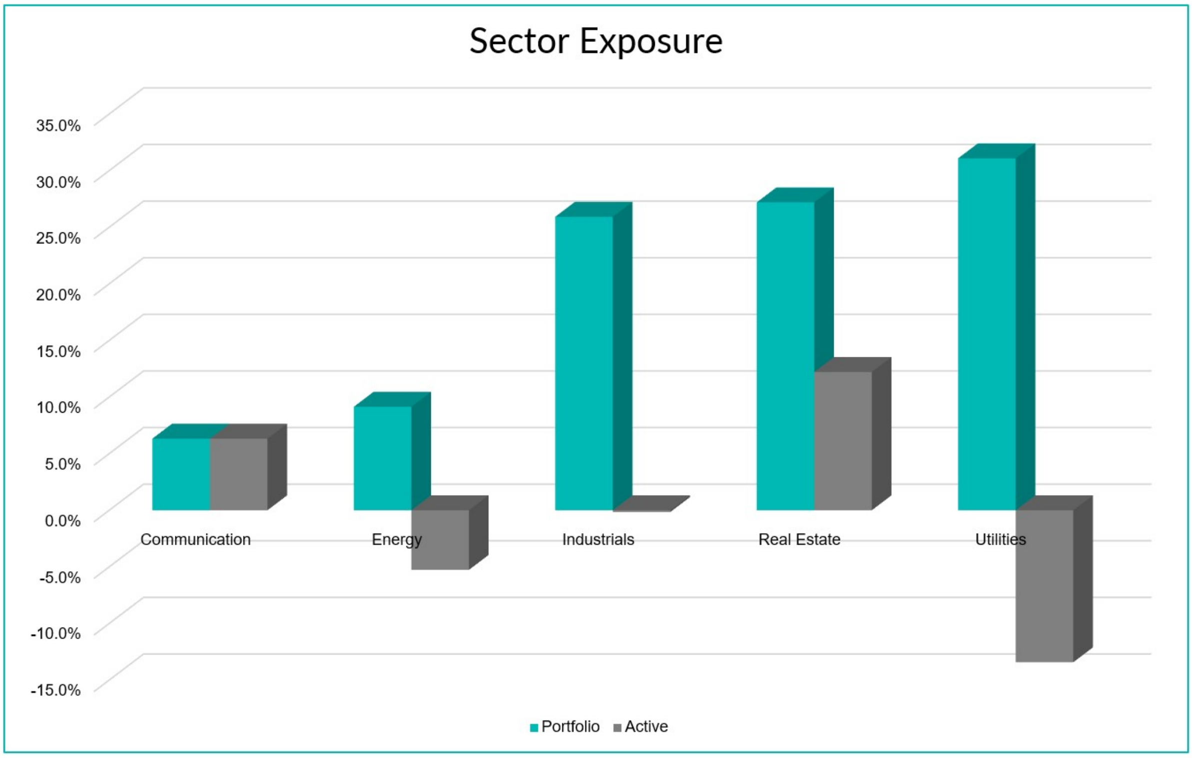
Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund by sector included Real Estate (+500 bps), Information Technology (+83 bps) and Communication (+34 bps) while top detractors by sector included Utilities (-297 bps), Energy (-295 bps) and Industrials (-104 bps) on an absolute basis.

On a relative basis, positive return contributions from the Industrials, Real Estate and Information Technology sectors were only offset by a negative contribution from the Utilities sector. The typically defensive Utilities sector has been surprisingly weak year-to-date, which we attribute to relatively higher-than average valuation levels prior to the selloff, higher-than-average balance sheet leverage and lower power demand. However, the Utilities sector has begun to outperform over the past few weeks as the global economy showed signs of stabilization and balance sheet concerns dissipated.



Source: Ninepoint Partners

We are currently overweight the Real Estate and Communication sectors, while underweight the Utilities, Energy and Industrials sectors. Although we have reinvested the bulk of our cash position, we have not made aggressive sector allocation changes given the uncertainty regarding the shape and sustainability of the nascent economic recovery.



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Crown Castle (+101 bps). Equinix (+93 bps) and American Tower (+72 bps). Top detractors year-to-date included NextEra Energy Partners (-125 bps), Engie (-114 bps) and Eiffage (-94 bps).

In May, our top performing investments included Orsted (+49 bps), Vinci (+39 bps) and Crown Castle (+34 bps) while National Grid (-24 bps), Digital Realty (-23 bps) and Vopak (-16 bps) underperformed.

The Ninepoint Global Infrastructure Fund was concentrated in 30 positions as at May 31, 2020 with the top 10 holdings accounting for approximately 38.2% of the fund. Over the prior fiscal year, 23 out of our 30 holdings have announced a dividend increase, with an average hike of 8.1%. 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 MAY 31, 2020 (SERIES F NPP356)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	4.0%	-1.7%	-4.1%	-1.7%	5.3%	4.5%	4.6%	7.1%
Index	4.6%	-2.1%	0.3%	-0.6%	2.6%	6.7%	8.5%	13.0%

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

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