Ninepoint Energy Fund

November 2018 Commentary

Investment Team

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No one is ever bullish at “the” bottom (or close to one) [see second graphic from 2016 when oil was at the actual bottom at $26/bbl]. By that point everyone has been battered. Everyone who dares stick their head up and add along the way is demoralized. Everyone says “if I can only just get back to even.” Generalists shun it. Sector specialists hate it (and life). That is what marks a sector bottom.

So far this year we have had:

1) The sharpest liquidation in net speculative length in oil in 10 years
2) The level of net speculative length (a proxy for sentiment) fall BELOW when oil traded at $26/bbl
3) (too) Many stocks fall by 50%+ in the past 5-6 months with many of them trading well below where they were when oil was at $26/bbl
4) Stocks technically approach the most oversold levels since the financial crisis (see below)
5) The energy sector fall to multi-year low weightings in all major indices = low care factor

The result: Q4/2018 is set to be the worst quarterly performance in at least 12 years for the sector.

To describe this year as frustrating would do it injustice. This is the worst year of performance in my career. To watch oil crater from the $70’s to the $40’s largely due to a profound overreaction to a temporary loosening (OPEC prematurely raising production in anticipation of Iran sanctions only to be lied to by Trump and have to reverse their increase) and now fears of a global economic slowdown even though the most recent demand data we have points to 1.7MM Bbl/d of YOY growth is tough.

What drives us today is our experience from 2015/2016. As things got worse in November and December 2015 we added to positions we felt would most benefit from an inevitable turn in sentiment. We were willing to be early. The easy path to take then would have been to cash up, go large cap, buy pipeline stocks, etc. Instead we chose companies whose stocks had fallen well, well below what any sober investor would consider fair value under a reasonable oil price assumption. That is where we find ourselves again. The very best companies in Canada (and the US) have fallen to levels where very meaningful upside exists. In December 2015 we wrote in our year end commentary (see below) that we owned “names that we believe could appreciate by more than 100%...” From the lows in January 2016 to the end of that year the Fund rallied by ~142%.

With this backdrop, we see extremely positive upside in many oil stocks. This is why we decided in late 2015 to go "all in" with the admission that we were likely early and that we would be more volatile than some of our energy fund peers who, despite many oil stocks falling by 70%-80%, still prefer cash over being exposed to the upside. With the implosion in high quality names, the risk/reward ratio became too great to ignore. The Sprott Energy Fund owns some names that we believe could appreciate by more than 100% this year, should we be correct in our oil call. Importantly, if we are wrong in our timing, we are not taking undue financial risk in the vast majority of our holdings, as most have no risk of violating covenants in 2016 nor have higher than average financial leverage. We own names where in a "$30-$40/bbl world forever" scenario they are viewed as "too risky" and yet in a $50/bbl world are wildly undervalued. Some of these stocks have now fallen by 90% from their highs seen less than a year ago and as such offer the ability to double while still being down 80%. It is odd that nearly all of the major banks/brokerages are calling for an oil price recovery in the second half of the year to approximately $50/bbl and yet many stocks are trading as if we will be in a $30-$40/bbl world for the next several years.

Source: Sprott Asset Management

We remain bullish on oil. I know that sounds like pure lunacy but fundamentals do not explain most of the decline in the oil price. Yes, the market loosened but that situation is being fixed by the announced 1.2MM Bbl/d OPEC+ cut in November. While uncertainties remain on the outlook for the global economy in 2019 we believe the market is overlooking the demand stimulus that sub $50 oil would bring and the significant negative impact on US production growth that $40 oil would result in (Midland, TX gets a $7 discount to $47WTI…). OPEC spare capacity relative to global demand of 100MM Bbl/d remains at a near historic low and in 2020-2024+ non-US/OPEC production is still going to go into a multi-year decline due to an implosion in investment on long lead projects. All of those factors mattered not that long ago. They will again. We will end by repeating what we said in December 2015…we see the potential for more than 100% upside in energy stocks next year.

I wish you and your families a very Merry Christmas and a safe (and much needed) break over the holidays.

Eric Nuttall
Partner, Senior Portfolio Manager
Ninepoint Energy Fund

02/11/2016 11:38:49 [BFW]

WTI Crude Outlook Bearish, Analysts Say in Weekly Survey

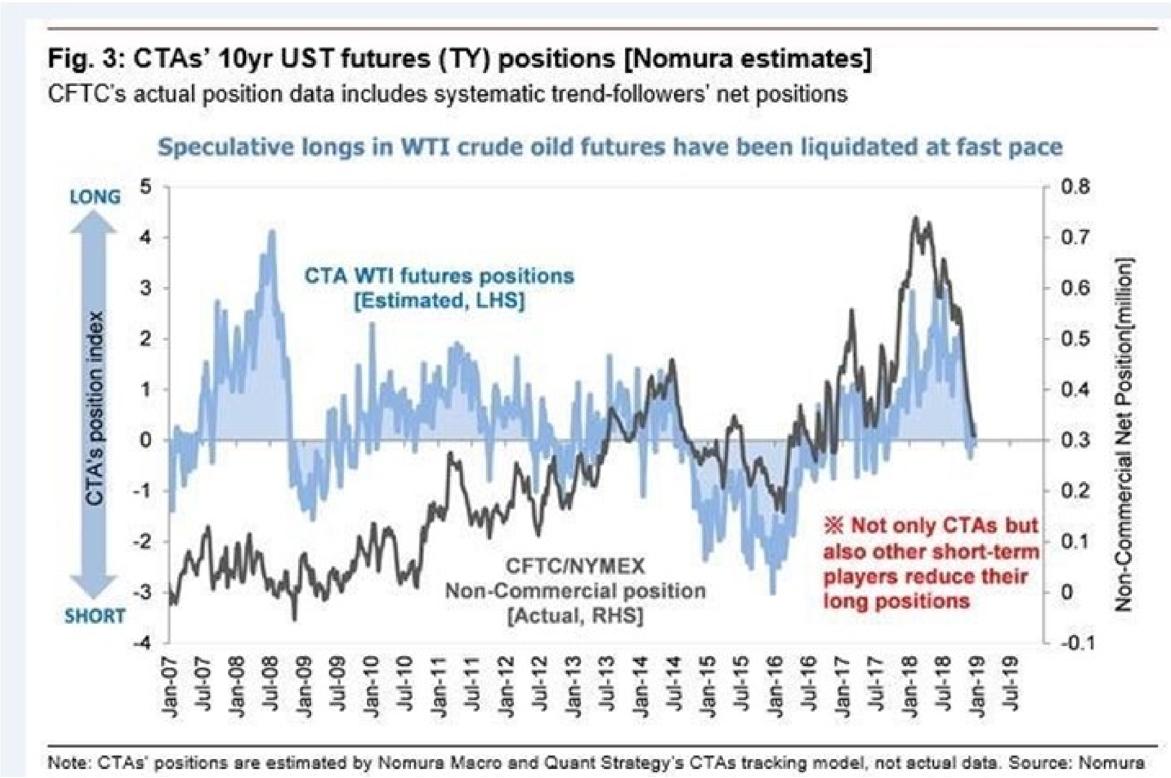
By Mark Shenk

(Bloomberg) -- Analysts, traders bearish on WTI crude futures, wkly Bloomberg survey shows.

- 18 of 38, or 47%, bearish
- 9, or 24%, bullish
- 11 neutral
- NOTE: WTI-$4.57 this wk to $26.32/bbl at 11:30am on Nymex

Source: Bloomberg

Source: Bloomberg



Source: Nomura

- **XOP** (E&P) is now **officially now on track to log its worst quarter *EVER*** since its inception in '06 following yesterday's decline... Awesome

	Q1	Q2	Q3	Q4
2018	-5.09	22.47	.68	-36.68
2017	-9.43	-14.54	7.04	9.27
2016	.71	14.94	10.73	7.89
2015	8.29	-9.33	-29.27	-7.53
2014	5.02	14.77	-16.16	-30.16
2013	12.16	-3.49	13.39	4.20
2012	8.22	-11.24	10.71	-2.33
2011	22.78	-8.69	-26.98	23.32
2010	2.30	-7.34	8.50	25.00
2009	-10.07	19.51	22.11	6.80
2008	3.43	30.86	-36.13	-33.69
2007	7.05	12.69	2.58	10.64
2006			-8.86	7.23

Source: Bloomberg

SentimenTrader (@sentimentrader)

2018-12-17, 7:27 PM

In the past 28 years, there have been two times when every stock in the S&P 500 Energy sector was below their 10-, 50-, and 200-day average and more than half were trading at 52-week lows.

1) During the very depths of the 2008 financial crisis
2) Now

Source: Twitter

NINEPOINT ENERGY FUND - COMPOUNDED RETURNS[1]
AS OF APRIL 30, 2020 (SERIES F NPP008)

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEPTION
Fund	63.7%	-58.6%	-47.9%	-44.5%	-57.7%	-34.6%	-27.2%	-13.4%	-7.6%	-4.5%
Index	28.5%	-46.1%	-39.3%	-35.6%	-49.9%	-24.2%	-17.6%	-10.0%	-4.0%	-2.1%

[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 November 30, 2018; e) 2004 annual returns are from 04/15/04 to 12/31/04. The index is 100% S&P/TSX Capped Energy TRI and is computed by Ninepoint Partners LP based on publicly available index information.[†] Since inception of fund Series F.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these

risks: concentration risk; credit risk; currency risk; cybersecurity risk; derivatives risk; exchange traded funds risk; foreign investment risk; inflation risk; interest rate risk; liquidity risk; market risk; regulatory risk; securities lending, repurchase and reverse repurchase transactions risk; series risk; short selling risk; small capitalization natural resource company risk; specific issuer risk; tax risk.

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