Ninepoint Global Infrastructure Fund

October 2018 Commentary

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

Year-to-date to October 31, the Ninepoint Global Infrastructure Fund generated a total return of -3.68% compared to the S&P Global Infrastructure Index, which generated a total return of -4.12% and our new benchmark the MSCI World Core Infrastructure Index, which generated a total return of 2.98%. Note that we have changed our benchmark purely for administrative reasons, but unfortunately it does make our year-to-date returns appear significantly worse on a relative basis.

Returns in the month of October were disappointing on an absolute and relative basis, with the Fund generating a total return of -5.86% while the S&P Global Infrastructure Index generated a total return of -2.14% and the MSCI World Core Infrastructure Index generated a total return of -1.33%. In October, the US 10-year bond yield rallied from 3.06% to 3.16%, remaining above the key psychological level of 3.0%, which acted as a headwind for the equity markets. Our positioning in the Industrials, Energy and Information Technology sectors detracted from performance during the month. Conversely, our holdings in the Communications and Financials sectors generated gains. Note that we have begun to reduce our Energy weightings and increase our Utilities weightings, rotating to move more in line with our new benchmark. Finally, currency hedging detracted from performance in October as the CAD weakened despite the successful negotiation of the USMCA trade deal.

October 2018 will be remembered for the dramatic correction in the equity markets, with the S&P 500 falling 10.6% to an intraday low on October 29, before rebounding. The list of potential factors or causes of the correction have been well documented (including a more-hawkish than expected FED tone that led to higher rate expectations, a deteriorating US-China relationship that led to the enactment of trade tariffs, wage and materials cost inflation that led to margin compression in various earnings reports and the looming US midterm elections that led to political uncertainty) but, in realty, no single factor can be blamed.

Whatever the trigger, aggressive positioning in crowded high-growth and high-multiple stocks was unwound and the entire market de-rated. Broadly speaking, rising rates and uncertainty imply lower P/E multiples but consider the following scenarios for the S&P 500 based on forward earnings estimates: 15x $178 = 2,670 (seems unlikely since earnings growth remains positive in 2019), 16x $178 = 2,850 (very reasonable), 17x $178 = 3,025 (quite possible) or 18x $178 = 3,200 (seems unlikely without an improvement in either the FED's tone or US-China trade rhetoric).

Therefore, we believe that it is too early to position for an outright downturn and expect markets to end the year higher than today. Positive seasonality for the markets should kick in (gains in November and December occur 75% of the time based on data from the past twenty years), the midterm elections proved to be benign (on average markets rally 7% from August 31 to year-end around midterms based on history) and earnings expectations and market valuations have been reset to reasonable levels.

Our modelling indicates that the Canadian dollar is roughly fairly-valued. However, the equity market selloff has introduced a new level of complexity to our FX analysis as prior correlations become less statistically significant. We have therefore maintained hedges on half of our USD/CAD exposure to reduce volatility in the Fund.

Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund included Parkland Fuel (+186 bps), MasterCard (+111 bps) and CSX Corporation (+94 bps). Top detractors year-to-date included Westshore Terminals (-61 bps), Mastec (-55 bps) and Williams Companies (-46 bps).

The Ninepoint Global Infrastructure Fund was concentrated in 30 positions as at October 31, 2018 with the top 10 holdings accounting for approximately 39.7% of the fund. Over the prior fiscal year, 24 out of our 30 holdings have announced a dividend increase, with an average hike of 8.9%. 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 DECEMBER 31, 2021 (SERIES F NPP356) | INCEPTION DATE: SEPTEMBER 1, 2011

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR
Fund	4.9%	13.4%	7.7%	7.5%	13.4%	14.5%	9.8%	8.4%
MSCI World Core Infrastructure NR (CAD)	5.9%	16.1%	8.6%	9.8%	16.1%	10.8%	10.0%	12.1%

[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 October 31, 2018; 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.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: capital depletion risk; concentration risk; credit risk; currency risk; cybersecurity risk; derivatives risk; exchange traded funds risk; foreign investment risk; income trust risk; inflation risk; interest rate risk; liquidity risk; market risk; regulatory risk; series risk; short selling risk; small company risk; specific issuer risk; tax risk.

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