Ninepoint Global Infrastructure Fund

September 2018 Commentary

Investment Team

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Year-to-date to September 30, the Ninepoint Global Infrastructure Fund generated a total return of 2.31% compared to the S&P Global Infrastructure Index, which generated a total return of -2.02%.

Returns in the month of September were disappointing on an absolute basis but good on a relative basis, with the Fund generating a total return of -1.41% while the benchmark generated a total return of -1.94%. In September, the US 10-year bond yield rallied from 2.85% to 3.06%, crossing the key psychological level of 3.0%, which acted as a headwind for the rate-sensitive Utilities and Real Estate sectors. Our positioning in the Energy and Industrials sectors also detracted from performance in the month. Conversely, our Information Technology and Communications Services holdings produced gains.

As we write this commentary, the broad equity markets are in selloff mode, down more than 5% from the September peak. In just one week, the S&P 500 earnings multiple on 2019 estimates de-rated a full point, from approximately 17.3x to 16.3x. It is always difficult to pinpoint the exact trigger for a correction but the rapid rise in US 10-year bond yields, more hawkish than anticipated FED language, escalating trade friction between the US and China and concerns regarding the pending earnings season are all weighing on investor sentiment.

However, we believe that it is too early to position for an outright downturn. Economic data remains robust (global GDP is expected to grow 3.7% in both 2018 and 2019 according to the IMF) and 2019 should be another year of double digit earnings growth (consensus estimates imply 10.2% growth). Positive seasonality for the markets should kick in by the end of October (gains in November and December occur 75% of the time based on data from the past twenty years), the midterm elections should prove to be benign (on average markets rally 7% from August 31 to year-end around midterms based on history) and the pending third quarter earnings season will likely be better than feared.

Our modelling indicates that the Canadian dollar should continue to weaken in 2018. However, with Canada now joining Mexico in agreeing to a new trilateral trade agreement with the United States, we anticipate some near term Canadian dollar strength. Further, 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 hedged 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 (+185 bps), MasterCard (+150 bps) and CSX Corporation (+122 bps). Top detractors year-to-date included Westshore Terminals (-64 bps), Comcast (-62 bps) and Mastec (-58 bps).

The Ninepoint Global Infrastructure Fund was concentrated in 30 positions as at September 30, 2018 with the top 10 holdings accounting for approximately 37.2% of the fund. Over the prior fiscal year, 25 out of our 30 holdings have announced a dividend increase, with an average hike of 8.8%. 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]

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	6.6%	6.6%	7.5%	12.0%	25.7%	12.4%	6.1%	8.4%

[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 September 30, 2018; e) 2011 annual returns are from 09/01/11 to 12/31/11.

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