Q&A
Ninepoint Fixed Income Strategies
May 2020

Mark Wisniewski is Partner and Senior Portfolio Manager at Ninepoint Partners and oversees the firm's Fixed Income team and investment strategies. Mark has over 30 years of investment industry experience, specializing in fixed income.

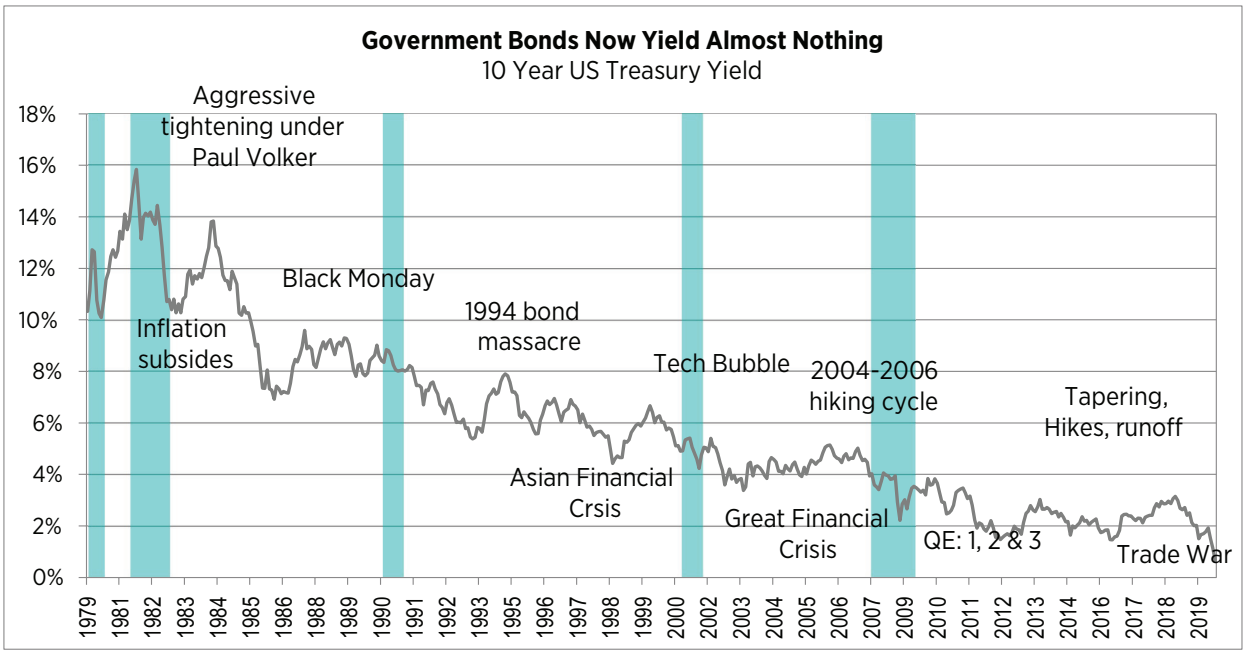
1 Tell us a bit about your background, how long have you been managing bond funds?

I started my career over 30 years ago specializing in fixed income on the institutional side, trading bonds and managing fixed income businesses. I have traded most fixed income products, working at BMO, Goldman Sachs and TD Securities, where I was Vice Chair of Global Fixed Income. I've been a PM for 12 years, having started my first credit focused alternative fund back in 2008.

2 What is your philosophy and objective in fixed income management and how has that evolved?

When I started my first bond fund in 2008, I felt that there wasn't much in the way of differentiated bond products. Most investors purchased static indexed funds that were very basic, there wasn't a lot of variety. My fixed income philosophy is simple — generate more income, but with less volatility. As such, we are an active manager and very absolute return focused. To manage the volatility, risk management is an integral part of our process.

We've evolved over the years because the characteristics of the securities that we invest in have changed. Take government bonds for example, which have become very low yielding securities (they are safe but far from risk-less). At times of heightened volatility, like last March, we've determined they've become less of a portfolio hedge. As central banks cut interest rates to almost zero, the yield on government bonds will approach zero, so the coupons, the interest payments on these securities will eventually approach zero. As such,



Source: Bloomberg

with no income earned, these bonds will possess very high convexity. Owning government securities will equate to almost no income and huge price swings. Not ideal.

So as a result, we've had to become more active on our allocation to government bonds, their duration and our credit mix to add income with less interest rate volatility. And we've also had to find other ways to protect our portfolios. We are utilizing the options market much more to provide various portfolio hedges.

In summary, I'd say we've evolved to become much more active on our portfolio positioning and we've expanded on ways to hedge risk.

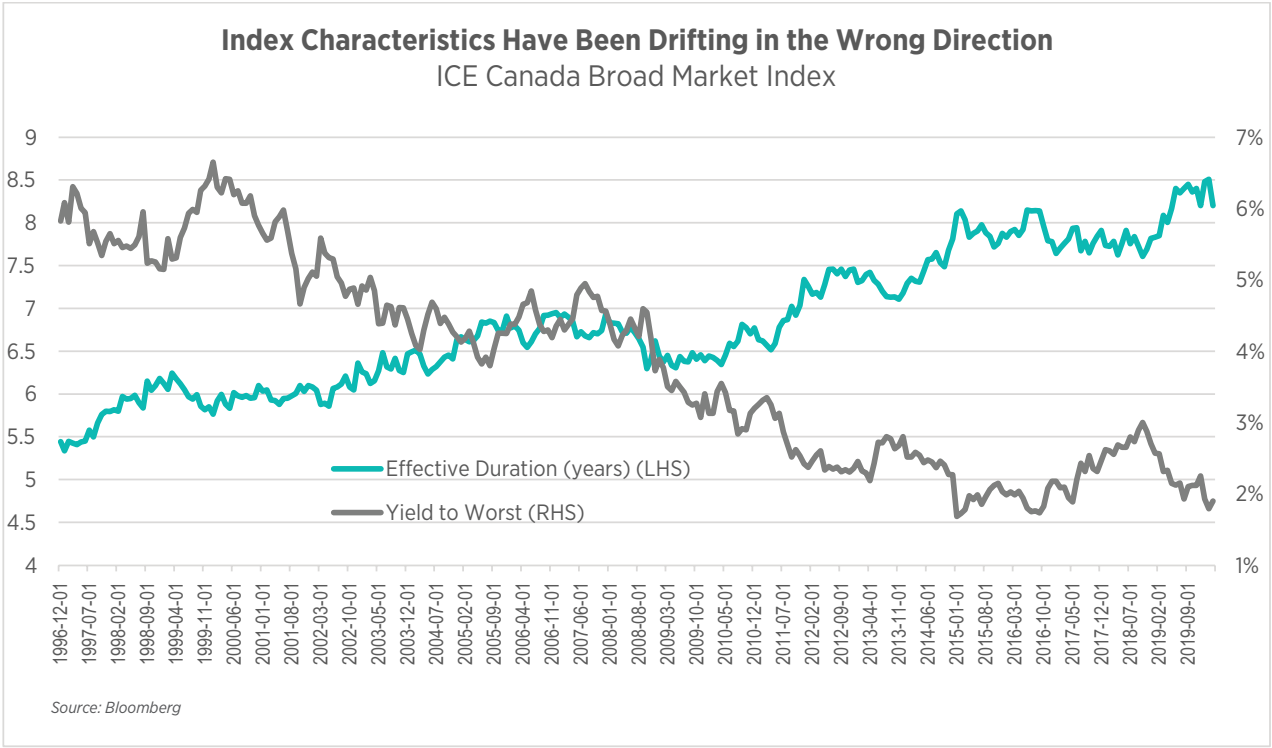
To put this into perspective, in March 2020, the U.S. Leveraged Loan Index fell 12.37%, with middle-market loans losing 14.71% of their value.

3 How is your style uniquely different from traditional bond funds and ETFs?

Our style is nothing like the way traditional bond funds are managed. We're not an index fund, we are active and absolute return focused. Typical bond funds track or mimic a specific bond index, as such they contain too many government or quasi-government bonds. These traditional funds and ETFs don't generate much income and they possess higher duration, so higher interest rate risk. In Europe, where government bond yields are negative, a typical bond fund yields less than 1% before fees, with 6 to 8 years of duration risk. It's inconceivable that these European bond funds ever generate a return if interest rates don't keep going lower, and interest rates are already at record lows.

Our investment style is very different; we prefer to generate returns with income producing securities, not more duration. We actively manage the fund throughout the economic cycle, altering the portfolio characteristics to be defensive or opportunistically positioned. Duration and credit risks are separated into two distinct buckets. We use credit to generate income and governments for duration and portfolio ballast.

In credit, I'd characterize our style as factor-based. There is value to be had investing in smaller, sometimes less well-known companies. We also take advantage of market dislocations, such as forced selling from fallen angels.



Risk management is key to our process. We use Blackrock's Aladdin system to assess all the risks in our portfolio. Types and weighting of securities are monitored, company and sector exposure, average credit quality, geographies, duration, government, credit mix and the sources of liquidity available to us.

We are different because we generate more income with less volatility, and don't correlate with the traditional index bond funds. Our bond strategies are a suitable replacement or complement to traditional fixed income products.

4 One of your funds, the Diversified Bond Fund is in the Morningstar Global Bond Category, along with other alternative funds like Canoe, Canso, Pimco and Manulife Strategic. Can you discuss the focus, your style and how you differ from your peers?

Our size is a real advantage; we manage much less than any of them, so we can actually be more active and nimbler. I would add that we are primarily active on duration and security positioning. For example, in early 2018 when interest rates were going up, we had a duration of 1 year. You wouldn't have found a single other bond fund with 1-year duration. That allowed us to be positive all year. Last year, when spreads on high yield bonds moved to record lows, we reduced our exposure to 5%.

We have a bias for credit, all types of credit, but unlike Canso, we don't take big positions in a single credit story. We prefer to rotate through a broad mix of credit that is higher quality and is more diverse. As a member of the Global Bond Category, we're an unconstrained, go anywhere fund, but I'd say we are typically a minimum of 70% North America and 30% elsewhere. We invest in the EM space (when it gets really cheap) but we typically reserve that 30% for foreign government bonds. And we generally take very little currency risk, I don't really like FX risk, so my preference is to hedge that out.

Putting it all together we generate very comparable, consistent returns, but we do it with much less volatility than our peers. Additionally, we don't really correlate highly with any of these funds, so we're a great complement to any of them.

3YR Risk (monthly)

Time Period: 5/1/2017 to 4/30/2020 Currency: Canadian Dollar Source Data: Monthly Return Risk-free Rate: FTSE Canada 91 Day TBill

	Return	Std Dev	Sharpe Ratio	Max Drawdown	Worst Month
Ninepoint Diversified Bond Series F*	2.68	2.37	0.54	-1.94	-1.94
PIMCO Monthly Income F	1.51	5.30	0.05	-8.44	-8.05
Manulife Strategic Income F	2.78	3.88	0.37	-4.45	-4.31
Canso Corporate Value Class F	2.34	5.97	0.18	-7.82	-7.64
Canoe Global Income Series F	1.75	5.40	0.09	-7.61	-7.61
BMO Aggregate Bond ETF	4.29	4.61	0.64	-3.08	-2.15

Source: Morningstar Direct
** Ninepoint Diversified Bond Fund*

5 Can you talk about correlation and how your strategies fit in a fixed income portfolio?

We get asked about bond funds, like Pimco, all the time. They're popular and effective. To be relevant to investors, it's not enough for us to just be good at what we do, we need to add differentiated value. As we discussed earlier, our asset mix and process are very different. And as a smaller fund we are more active on duration and positioning. The chart on page 4 shows our correlation with PIMCO is 0.52, 0.64 with Canso and 0.79 with Manulife. More importantly, our downside correlation with all those funds is in the range of 0.66 to 0.77. So, on average, when these other funds suffer down months, we do a better job protecting the downside. However, in a risk-on market, we would expect to deliver a slightly lower return.

Correlation Matrix - 3YR

Time Period: 5/1/2017 to 4/30/2020

Currency: Canadian Dollar

		1	2	3	4	5	6
1	Ninepoint Diversified Bond Series F *	1.00					
2	PIMCO Monthly Income F	0.52	1.00				
3	Manulife Strategic Income F	0.79	0.77	1.00			
4	Canso Corporate Value Class F	0.64	0.87	0.82	1.00		
5	Canoe Global Income Series F	0.80	0.89	0.91	0.89	1.00	
6	BMO Aggregate Bond ETF	0.73	0.41	0.66	0.57	0.63	1.00

1.00 to 0.80 | 0.80 to 0.60 | 0.60 to 0.40 | 0.40 to 0.20 | 0.20 to 0.00
0.00 to -0.20 | -0.20 to -0.40 | -0.40 to -0.60 | -0.60 to -0.80 | -0.80 to -1.00

Downside Correlation - 3yr vs. NPP118

Time Period: 5/1/2017 to 4/30/2020

	Bear Correlation
NPP118	1.00
PMO205*	0.84
MMF659	0.86
CFM111	0.87
GOC7003	0.89
ZAG	0.75

vs. PMO205

Calculation Benchmark: PIMCO Monthly Income F

	Bear Correlation
NPP118	0.66
PMO205	1.00
MMF659	0.78
CFM111	0.99
GOC7003	0.91
ZAG	0.56

vs. MMF659

Calculation Benchmark: Manulife Strategic Income F

	Bear Correlation
NPP118	0.77
PMO205	0.96
MMF659	1.00
CFM111	0.96
GOC7003	0.98
ZAG	0.63

vs. CFM111

Calculation Benchmark: Canso Corporate Value Class F

	Bear Correlation
NPP118	0.69
PMO205	0.98
MMF659	0.90
CFM111	1.00
GOC7003	0.96
ZAG	0.45

vs. GOC7003

Calculation Benchmark: Canoe Global Income Series F

	Bear Correlation
NPP118	0.84
PMO205	0.99
MMF659	0.92
CFM111	0.99
GOC7003	1.00
ZAG	0.52

vs. ZAG

Calculation Benchmark: BMO Aggregate Bond ETF

	Bear Correlation
NPP118	0.47
PMO205	0.57
MMF659	0.51
CFM111	0.63
GOC7003	0.58
ZAG	1.00

Source: Morningstar Direct
** Ninepoint Diversified Bond Fund*

6 Do you utilize any derivatives in your strategies?

We primarily use options on fixed income ETF's like TLT, HYG, JNK and LQD. These are very large, liquid ETF's so we get great transparency, liquidity and pricing. We use various options strategies in the fund to achieve three portfolio objectives: hedge or add duration, provide portfolio insurance to dampen volatility in credit and to quickly take an opportunistic position in a market or sector that's become extremely attractive.

7 Your Credit Income Opportunities Fund is an alternative bond strategy that utilizes leverage, can you discuss that strategy and your use of leverage?

Unlike a lot of the new alternative credit managers, I was actually managing a leveraged credit strategy back in 2008 during the credit crisis. I learned in 2008 that using a lot of leverage (more than 2 times on average) creates a product with too much volatility. If a manager was using 4 or 5 times leverage over the past few months, the standard deviation on that leveraged credit strategy would have been around 15%, the same as the TSX. It's disingenuous to call a credit fund, that uses a lot of leverage, a fixed income fund if it fully correlates with equities and offers the same volatility. Not to mention, if one is comfortable with that type of volatility why not just buy equities where returns are considerably higher.

3YR Risk (monthly)

Time Period: 5/1/2017 to 4/30/2020 Currency: Canadian Dollar Source Data: Monthly Return Risk-free Rate: FTSE Canada 91 Day TBill

	Return	Std Dev	Sharpe Ratio	Max Drawdown	Worst Month
Ninepoint Credit Income Opportunities F	1.42	4.83	0.03	-6.74	-6.74
RP Debt Opportunities Fund Trust	-1.17	14.35	-0.10	-23.17	-22.21
East Coast Investment Grade II Fd Cla F	2.61	12.55	0.16	-18.51	-18.51
Algonquin Debt Strategies Fund LP F	-0.36	10.35	-0.11	-16.31	-16.31
Lawrence Park Credit Strategies Fund	-0.22	10.43	-0.09	-17.03	-16.85

Source: Morningstar Direct

Leverage is one of many tools we use in our Credit Income Opportunities Fund. We utilize leverage to enhance yield when it makes sense, typically when spreads have been distorted by a company-specific issue or a credit event, similar to last March. The use of leverage is a function of the opportunity, it is not to fabricate a return that isn't sustainable. Our average leverage has been around 1 turn and the range has been .75 to 1.5 turns.

8 How have your portfolios held up during this COVID 19 crisis? And how have you managed relative to other strategies?

Both portfolios have done very well and I believe, relative to others, we are holding our own. The Diversified Bond Fund has been positive all year, up approximately 1.7%. The portfolio is very conservatively positioned with lots of liquidity - we have a 5% cash position and 30% of the portfolio matures in the next 12 months.

The Credit Income Opportunities Fund is down about -3.2% YTD. Considering the fund uses a little leverage on investment grade credit that's a reasonable outcome. The portfolio is defensively positioned with low leverage and lots of liquidity, so it's in a great position to take advantage of the current dislocation in credit.

Fund performance [1]	Jan 2020	Feb 2020	Mar 2020	Apr 2020	YTD
Diversified Bond Fund (F)	1.31%	0.99%	-1.94%	1.4%	1.73%
Credit Income Opportunities (F)	0.54%	0.45%	-6.81%	2.78%	-3.21%

9 Where does your bond strategies fit in an overall asset mix and how should investors think about allocating them? Are they fixed income or alternatives?

The Diversified Bond Fund is a diversified strategy, hence the name. It is in the Morningstar Global Bond Category, just like Manulife Strategic, Pimco, Canoe and Canso. It's an unconstrained mandate, within the limits that are dictated by the category. We invest in a broad range of products and market segments — global government bonds, investment grade credit, high yield, securitizations, mortgage backed bonds and emerging markets. All bond maturities are considered, short-term to long-term, but I would also say we have an intermediate-term bias. We are an active manager, we constantly alter the portfolio characteristics to be opportunistic or defensive, based on the business cycle, risk of recession, and the trend in interest rates. We are definitely absolute return focused; our objective is better than average returns with less volatility relative to index products. We have a 9-year track record of higher returns and lower volatility than the index. I would categorize the Diversified Bond Fund as a Core-plus strategy.

Our Credit Income Opportunities Fund is an unconstrained, go anywhere global fund, but its primary focus is corporate credit. It is an actively managed, absolute return focused product. As It uses leverage on investment credit, it is an OM product. Similar funds in this category would be other leveraged credit strategies like RPIA, Algonquin and East Coast. It has an 11-year track record of positive performance. If there is such a thing, I'd categorize it as a Core plus "alternative" product.

10 How do you feel about fixed income this year and in the near future?

Short term, I'm extremely constructive. Longer term, I have some concerns. Let me explain. The hit to the global economy from this virus is much more significant than anyone had thought. And it has the potential to cause one of the worst contractions in growth in history. The looming recession should be deeper than 2008, but the duration is still an unknown. Given the inability to do massive testing and the absence of a vaccine (that's probably a year away), the return to normal will be very gradual and controlled, taking much longer than the current (optimistic) forecasts.
On the positive side, we've had a huge increase in discretionary fiscal spending and a monetary response that has been extensive and quickly implemented. Both the FED and the BOC are now purchasing government and corporate bonds and they aren't going to raise rates for years. Interest rates will be anchored at rock bottom levels. In this environment corporate credit will be the security of choice for generating income.

I don't share the same enthusiasm for lower quality high yield bonds. Balance sheet leverage and the fallout from the oil shock will create an escalation

in defaults and downgrades over the next two quarters. High yield becomes more of a compelling product when spreads widen out to double digits, better reflecting the risks. Lower-rated high yield will likely be a focus of ours further on in the cycle. Companies that get downgraded to high yield from investment grade will be the best opportunity, consequently they are the current focus.

Next year will certainly be more challenging. As I mentioned earlier, interest rates will stay at extremely low levels for the foreseeable future and that will challenge the entire bond complex. Portfolio managers will need to be active, nimble, and creative to generate attractive risk adjusted returns. ■

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS[1]

AS OF APRIL 30, 2020 (SERIES F NPP118)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	1.4%	1.7%	0.4%	1.1%	3.6%	2.7%	3.4%	4.4%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS[1]

AS OF APRIL 30, 2020 (SERIES F NPP507)

	1M	YTD	3M	6M	1YR	3YR	INCEPTION
Fund	2.8%	-3.2%	-3.7%	-2.6%	-1.0%	1.4%	3.0%

Ninepoint Diversified Bond Fund (Series F) inception date: August 5, 2010
Ninepoint Credit Income Opportunities Fund (Series F) inception date: June 30, 2015

DISCLAIMERS

[1] All Ninepoint Diversified Bond Fund/Class 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 April 30, 2020. All Ninepoint Credit Income Opportunities Fund returns and fund details are a) based on Class A units (closed to subscriptions); b) net of fees; c) annualized if period is greater than one year; d) as at April 30, 2020.

The Risks associated worth investing in a Fund depend on the securities and assets in which the Funds invests, based upon the Fund's particular objectives. There is no assurance that any Fund will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Fund will be returned to you. The Funds are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Fund's prospectus or offering memorandum before investing.

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