Ninepoint Global Infrastructure Fund

July 2022 Commentary

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Year-to-date to July 31, the Ninepoint Global Infrastructure Fund generated a total return of 2.74% compared to the MSCI World Core Infrastructure Index, which generated a total return of 1.23%. For the month, the Fund generated a total return of 6.05% while the Index generated a total return of 5.08%.

NINEPOINT GLOBAL INFRASTRUCTURE FUND - COMPOUNDED RETURNS[1] AS OF JULY 31, 2022 (SERIES F NPP356) | INCEPTION DATE: SEPTEMBER 1, 2011

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	Inception
Fund	6.1%	2.7%	2.1%	6.6%	10.1%	9.3%	8.5%	8.4%	7.9%
MSCI World Core Infrastructure NR (CAD)	5.1%	1.2%	1.4%	4.2%	8.4%	6.3%	8.8%	11.8%	11.9%

The US economy has now officially posted two consecutive quarters of negative GDP growth (Q1 was -1.6% and Q2 was -0.9%), meeting the official definition of a recession. But the current economic environment is extremely unusual, and a significant amount of time and energy has been spent by investment strategists, market commentators and investors debating whether this should be classified as a "technical" recession as opposed to a more significant "cyclical" recession.

Without getting into the nuances of the Q1 and Q2 GDP reports, a recession call seems inconsistent with the positive earnings growth and positive jobs growth that we have seen year-to-date. For Q1 2022, the actual EPS growth rate was 4.4% according to S&P Global and non-farm payrolls increased 504,000 in January, 714,000 in February and 398,000 in March according to the US Bureau of Labor Statistics. Further, for Q2 2022, the blended EPS growth rate (with 87% of the S&P 500 companies having reported actual results) was 6.7% according to FactSet and non-farm payrolls increased 368,000 in April, 386,000 in May and 398,000 in June, again according to the US Bureau of Labor Statistics. Clearly, the Covid-19 lockdown, massive fiscal stimulus and subsequent reopening is messing with the data and our traditional understanding of economic downturns.

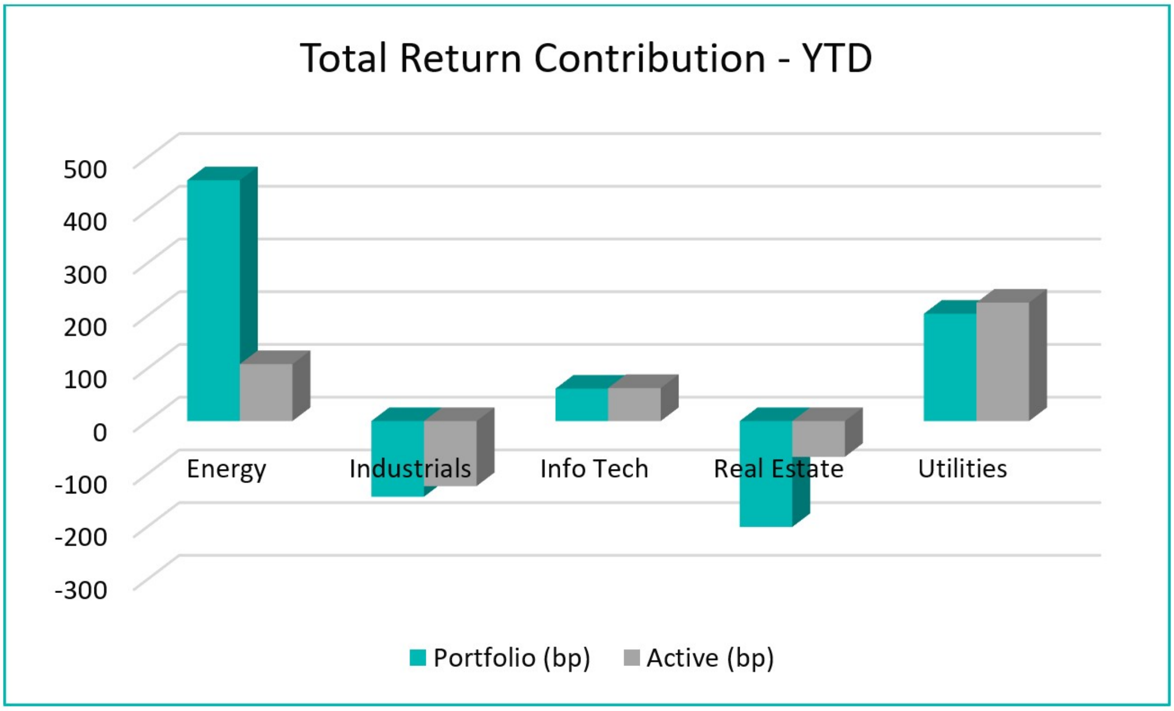
Unfortunately, the US CPI data remains elevated (although on a positive note, the current US weekly average retail gasoline price is down over 15% from the June peak), which suggests that the Fed is likely to keep hiking interest rates through 2022. Consistent with the inflation data, after the FOMC moved 75 bps on June 15 to a range of 1.50% to 1.75%, they hiked again by 75 bps on July 27 to a new range of 2.25% to 2.50%. Today, the futures curve is pricing additional hikes at the September, November and December FOMC meetings, implying a Fed funds rate of approximately 3.50% by December. Paradoxically, the weak GDP prints in Q1 and Q2 supported the narrative that the Fed would pause the tightening cycle earlier than expected or would even "pivot" to interest rate cuts by early-to-mid 2023, which powered a relief rally in July. We currently believe that a pause is much more likely than a pivot in 2023, assuming inflation decelerates but remains well above historical levels in the coming months.

As we've discussed in prior commentaries, investors have understandably started to question forward earnings expectations in a deteriorating economic environment. However, the consensus estimates have been reasonably stable around $230 for 2022 and $245 for 2023 (down slightly from prior estimates of $250), and the Q2 earnings season could be characterized as "better-than-feared". As of the end of the first week of August, with 87% of the S&P 500 having reported earnings, 75% of the actual results have beaten expectations. Encouragingly, earnings beats have been rewarded with share price appreciation (on average) while earnings misses have not been unfairly punished (again on average), according to FactSet.

Given the incredible amount of information (some signal and some noise) that we are dealing with daily, we are focused on watching for either the negative earning revision cycle to bottom or a Fed pause/pivot to signal the eventual inflection toward a return to economic growth. In keeping with our mandates, we are concentrating our efforts on free cash flow positive, high quality, dividend growth companies and real asset investments given our positive assessment of the risk/reward outlook over the next two to three years.

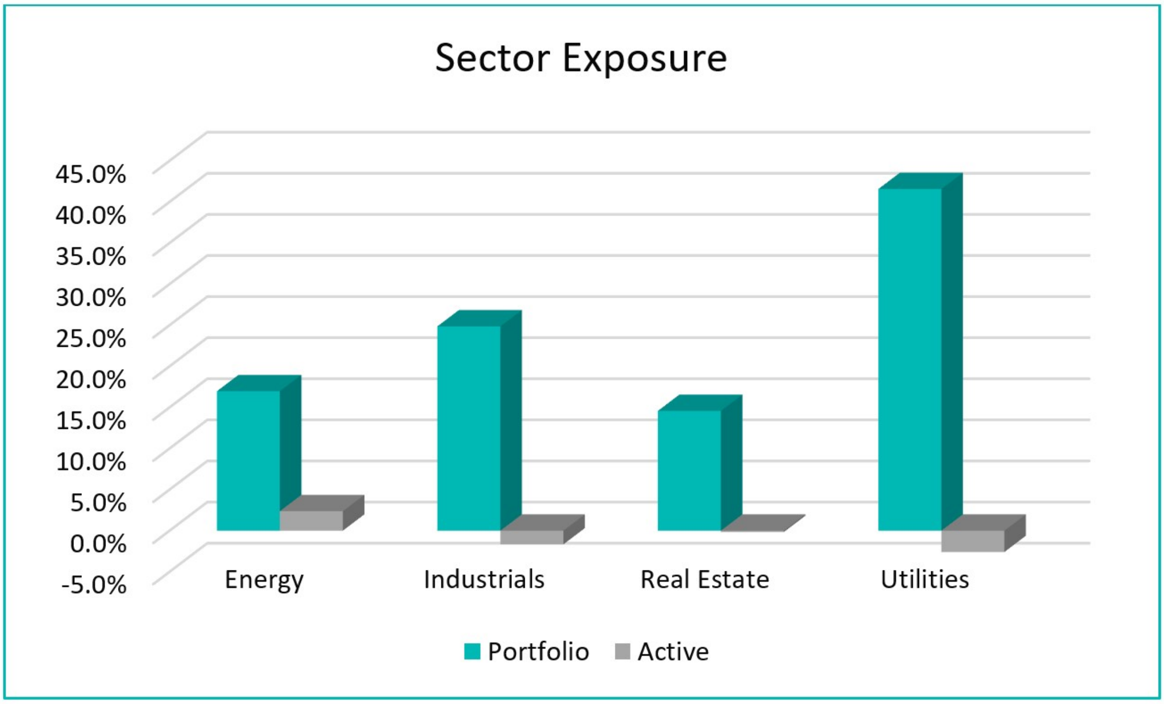
Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund by sector included Energy (+457 bps), Utilities (+204 bps) and Information Technology (+61 bps) while top detractors by sector included Real Estate (-201 bps) and Industrials (-144 bps) on an absolute basis.

On a relative basis, positive return contributions from the Utilities (+225 bps), Energy (+108 bps) and Information Technology (+63 bps) sectors were offset by negative contributions from the Industrials (-123 bps) and Real Estate (-68 bps) sectors.



Source: Ninepoint Partners

We are currently slightly overweight the Energy sector, market weight the Real Estate sector and slightly underweight the Utilities and Industrials sectors. With the US economy in a recession (technical or otherwise) and inflation stubbornly elevated, we have a very neutral sector positioning relative to our benchmark. However, the Inflation Reduction Act of 2022 should be very positive for certain companies in the Utilities and Industrials sectors, and we are actively looking for additional opportunities to reflect that view. Finally, we are watching for either the negative earning revision cycle to bottom or a Fed pause/pivot to signal the eventual inflection toward a return to economic growth.



Source: Ninepoint Partners

The Ninepoint Global Infrastructure Fund was concentrated in 29 positions as at July 31, 2022 with the top 10 holdings accounting for approximately 39.5% of the fund. Over the prior fiscal year, 17 out of our 29 holdings have announced a dividend increase, with an average hike of 5.9% (median hike of 4.2%). 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

[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 July 31, 2022; 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.

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