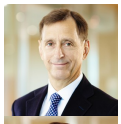
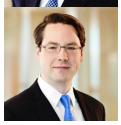
Ninepoint Diversified Bond Fund

April 2018 Commentary

Investment Team



Mark Wisniewski,
Partner, Senior Portfolio Manager



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April was a better month for risk assets; incoming macro data in the U.S. was good (Q1 GDP actually beat expectations with a 2.3% print), inflation is tracking around 2%, and market participants are becoming numb to trade rhetoric out of Washington. As a result, the stock market went up, high yield went up, and, with great fanfare, the U.S. 10-year bond yield finally went through 3%.

Consequently, most traditional bond fund returns were negative in April, as evidenced by our benchmark's -0.91% return. By contrast, the Ninepoint Diversified Bond Fund managed to eke out a 9bps positive return this past month. This was driven by gains in our duration hedges, negative duration preferred shares and the high yield portfolio, slightly offset by losses in some intermediate duration corporate bonds.

Looking ahead, longer term bond yields in the U.S. (10 and 30 year) seem to have a hard time pushing meaningfully past 3%. While 3% in itself is nothing more than a nice round number, it makes sense to see long term bond yields capped around that level, given that the Federal Reserve estimates the neutral rate of interest (the interest rate where monetary policy is neither accommodative nor restrictive) to be around 3%. Historically, long term bond yields rarely exceed the neutral rate. As such, we see those occasional spikes in U.S. bond yields as good opportunities to put money to work, take profits on duration hedges and wait for a better opportunity (lower yields) to reinitiate new ones.

And this is exactly what we did; towards the end of April, we exited our LQD duration hedges and deployed about 8% of cash in higher rated investment grade corporate bonds (see the Portfolio Characteristics Table below). Duration remains reasonably low (2.6 years) and overall credit quality is increasing. Now that Q1 earnings reporting season is coming to a close, we expect new bond issuance to pick up again. We will be looking for opportunities to deploy cash.

We continue to monitor trade developments, particularly NAFTA, which faces a make-or-break situation in the coming weeks. But overall, the world economy feels ok, central bankers are slowly taking away the punch bowl and we see no reason to reassess our strategic positioning. We stay the cautious course!

Until next month,

The Bond Team: Mark, Etienne and Chris

Diversified Bond Fund Portfolio Characteristics:

	Limits	Jun 2017	Sept 2017	Dec 2017	Mar 2018	Apr 2018	Outlook
Government Bonds	100%	0%	3%	-2%	0%	0%	↔
Investment Grade	80%	5%	15%	37%	56%	64%	↑
High Yield	40%	47%	48%	32%	24%	23%	↓
Emerging Market Governments	10%	4%	0%	0%	0%	0%	↔
Preferred Equities	10%	4%	4%	6%	6%	6%	↔
Common Equities &ETFs	10%	3%	0%	0%	0%	0%	↔
Derivatives	+/- 2.5%	0.0%	0.0%	-0.1%	+0.5%	0%	N/A
Cash and Equivalents		37%	29%	28%	14%	7%	↔
Total		100%	100%	100%	100%	100%	
Duration	1 to 8 years	1.7	2.4	2.1	2.3	2.6	↔
Geographic (% North America)	>75%	78%	89%	90%	89%	88%	↔

Current Net USD Exposure: 0%