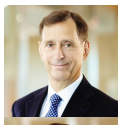
Ninepoint Fixed Income Strategy

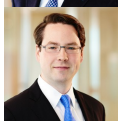
April 2019 Commentary

Monthly commentary discusses recent developments across both the **Diversified Bond** and **Credit Income Opportunities Funds**.

Investment Team



Mark Wisniewski,
Partner, Senior Portfolio Manager

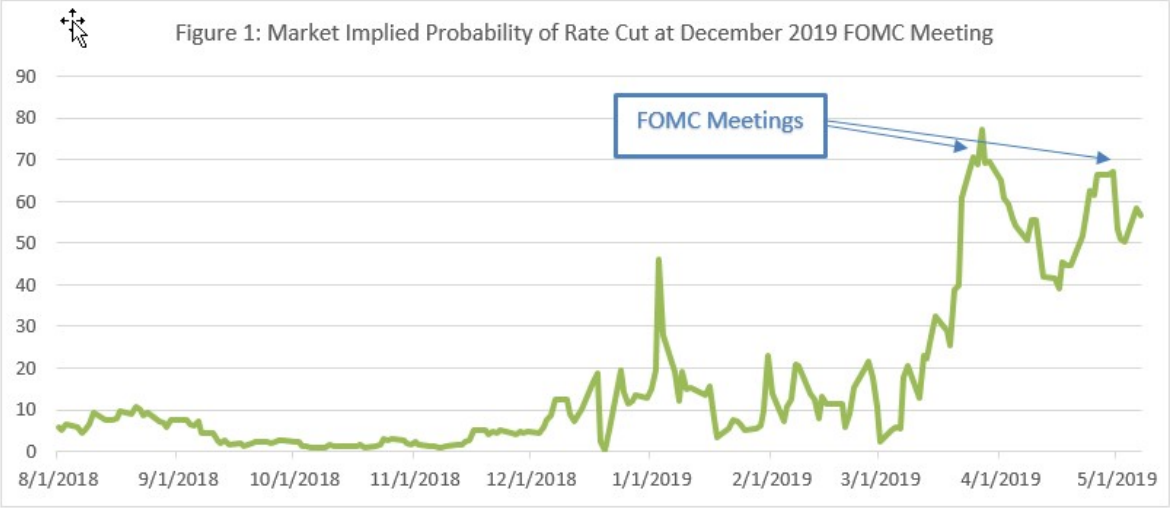


Etienne Bordeleau-Labrecque, MBA, CFA
Vice President, Portfolio Manager

Chris Cockeram, MBA, CFA
Vice President, Associate Portfolio Manager

Macro

As expected, macroeconomic data continued to stabilize. Chinese PMIs were slightly higher in April, European data surprised to the upside (from very depressed levels) and the U.S. economy continues to do well. The April non-farm payrolls were very strong, sending the US unemployment rate to a 49-year low of 3.6%. Encouragingly, after a decade of slow growth, productivity growth is finally ticking up the U.S. (stronger productivity growth means higher non-inflationary growth is possible). Overall, decent data in the U.S. and a decrease of downside risks overseas led Chair Powell to re-emphasize strongly that the Fed is nowhere near cutting rates, as it had become consensus amongst market participants that the Fed would make an "insurance cut" in the near future. Once again the Fed has had to dispel the belief that they are more inclined to cut than raise rates (Figure 1). With the Brexit can kicked down the road again, Chinese and European growth stabilizing and trade tensions (hopefully) coming to an end, the list of downside risks has eased somewhat.



Source: Ninepoint Partners

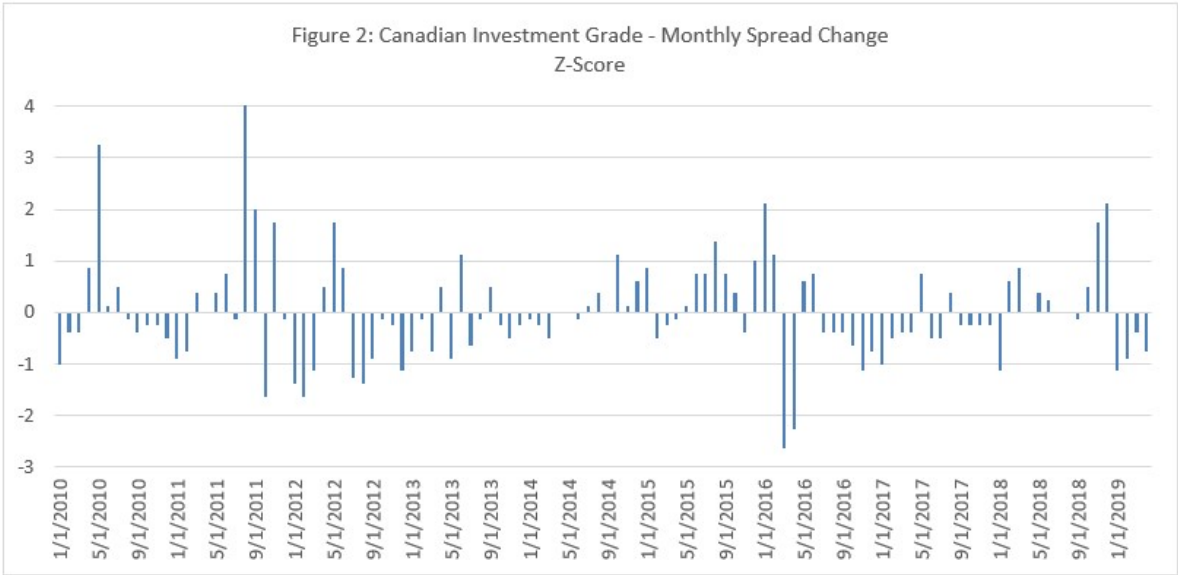
At the time of writing, the Trump administration was reigniting fears of additional tariffs on Chinese goods. After months of complacency, markets are reacting negatively to these headlines. The situation is very fluid, and it is unclear yet if this is simply a negotiation tactic or if trade tensions are

set to re-escalate meaningfully, in which case downside risks to global growth would re-emerge.

Closer to home, Canadian GDP growth continues to disappoint, prompting the Bank of Canada to drop its hawkish bias and to downgrade full year growth expectations to a measly 1.2% (street consensus currently sits at 1.5%). For now, the BoC is officially joining the club of "patient" central bankers, keeping things on hold as they wait for better data in the quarters ahead.

Credit

Credit continues to perform surprisingly well; in Canadian Investment Grade (IG), spreads compressed about 10bps in April (a roughly 1-standard deviation move, Figure 2). Spreads are now back to the top end of their old trading range of 110-120bps. The primary market (new issues) remains well subscribed, partly owning to a dearth of supply (year-to-date, supply is down 16%).

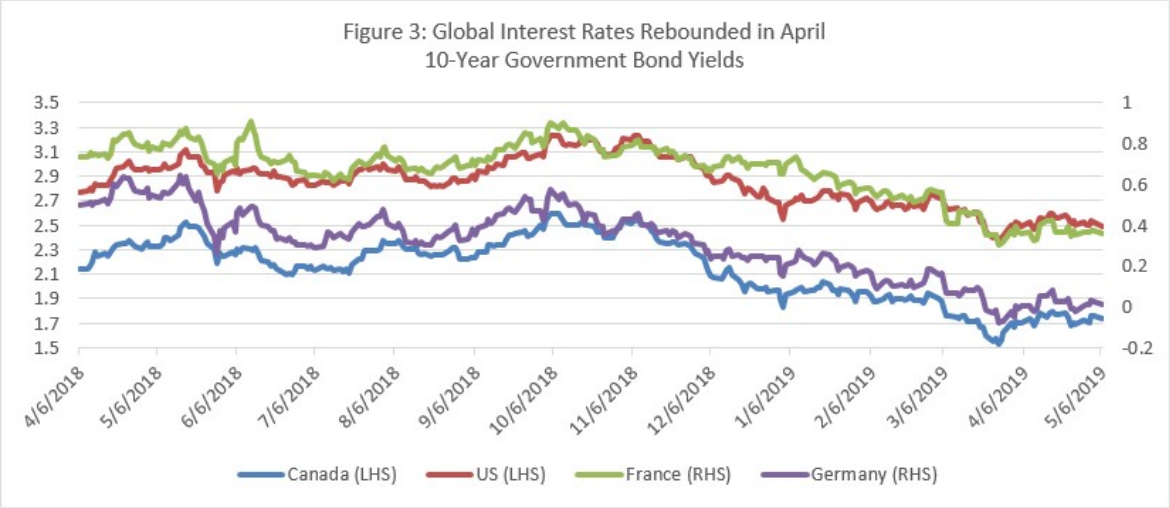


Source: Ninepoint Partners

In High Yield (HY), spreads compressed a further ~35bps in April. As discussed last month, we do not believe that current spread levels offer adequate compensation, and as such we have low exposure to that asset class. Recent trade tensions have changed the narrative; in the last few days we have seen HY spreads widen by as much as 15bps. If things escalate further, we might have an opportunity to find some HY bargains.

Diversified Bond Fund (DBF)

April was a relatively good month for the DBF, returning 35bps while broad Canadian bond indices suffered mild losses due to higher interest rates (Figure 3). The impact of higher rates on our government bond positions were relatively muted as French OATS outperformed (only up 5bps vs 10bps in equivalent Canadian and US bonds) and option hedges on our US 30-year government bond position dampened the impact of the rise in yields.



Source: Ninepoint Partners

Our outperformance this month was primarily driven by credit. Conditions were generally favourable as spreads in both HY and IG compressed mildly. Additionally, a strong earnings season for some of our overweight names such as Ford and GE lead to further positive performance.

Most of the changes that we made to the fund were modest, consistent with last month's commentary. There was a slight increase in duration (now about 4 years) through the purchase of European government bonds. High Yield bonds now make up less than 10% of the fund and their overall credit quality is high (BB). Unless market conditions change materially, we do not expect to make substantial changes to the current portfolio composition.

Diversified Bond Fund Portfolio Characteristics:

	Limits	Mar 2018	Jun 2018	Sept 2018	Dec 2018	Mar 2019	Apr 2019	Outlook
Government Bonds	**100%**	0%	-4%	2%	1%	7%	**12%**	↔
Investment Grade	**80%**	56%	66%	73%	76%	72%	**72%**	↔
High Yield	**40%**	24%	17%	16%	13%	14%	**9%**	↔
Emerging Market Governments	**10%**	0%	0%	0%	0%	0%	**0%**	↔
Preferred Equities	**10%**	6%	6%	6%	2.5%	0.7%	**0.2%**	↓
Common Equities & ETFs	**10%**	0%	0%	1.5%	1.5%	4.3%	**4.0%**	↔
Derivatives	**+/- 2.5%**	+0.5%	-0.1%	-0.05%	0.0%	0.0%	**0.0%**	**N/A**
Cash and Equivalents		14%	15%	1.5%	6%	2%	**4%**	↔
Total		100%	100%	100%	100%	100%	**100%**	
Duration	**1 to 8 years**	2.1	2.3	1.0	2.4	3.4	**3.9**	↑
Geographic (% North America)	**>75%**	90%	89%	93%	91%	87%	**85%**	↔
Unhedged FX Exposure	**20%**	0%	0%	0%	0%	0%	**3.5%**	↔

Source: Ninepoint Partners

Credit Income Opportunities Fund (Credit Opps)

April was another solid month for the Credit Opps, with a net return of 70bps. As discussed previously, credit continues to perform well and the low duration bias of this fund shields it from the slight increase in interest rates that we witnessed this month.

The main change to the portfolio is the continued decrease in HY, where we have sold most higher risk positions; we took advantage of the move higher in energy to sell down E&P bonds that were up $4-5 from the lows. In addition, we have generic HY hedges expressed through options on the HYG ETF, this accounts for about 20% notional weight, taking our effective HY weight below 0%. Leverage continues to hover around 1x and should remain in this range until IG spreads become more attractive.

For now, our "spring cleaning" is over and we do not expect to make material changes to the fund in the foreseeable future.

Credit Income Opportunities Portfolio Characteristics:

	Limits	Oct 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	Outlook
Government Bonds	**100%**	0%	0%	0%	0%	6%	**6%**	↔
Investment Grade	**100%**	58%	55%	59%	53%	58%	**58%**	↑
High Yield	**40%**	29%	24%	23%	23%	19%	**13%**	↔
Private Loans	**10%**	3%	3%	3%	2%	2%	**2%**	↔
Preferred Equities	**10%**	4%	4%	4%	2%	0.5%	**0%**	↔
Common Equities & ETFs	**10%**	0%	0%	0%	0%	0%	**0%**	↔
Derivatives	**+/- 2.5%**	0%	0%	0%	0.1%	0%	**0.0%**	**N/A**
Cash and Equivalents		6%	14%	11%	20%	15%	**20%**	↔
Total		100%	100%	100%	100%	100%	**100%**	
Duration	**0 to 5 years**	2.5	2.1	2.3	1.4	2.9	3.2	↔
Leverage	**0-4x**	0.7x	0.7x	0.8x	0.7x	1.0x	0.9x	↔
Unhedged FX Exposure	**>25%**	0%	0%	0%	0%	0%	**0%**	↔

Source: Ninepoint Partners

Conclusion

For now, we are in a wait and see mode; both portfolios are defensively positioned and have a healthy dose of available liquidity. We will continue to collect carry and roll maturing positions into high quality corporate bonds until market dislocations create new opportunities.

In other words, we have no intention of going up the risk spectrum until we get appropriately compensated for it.

Until next month,
The Bond Team: Mark, Etienne and Chris

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS[1]
AS OF JANUARY 31, 2020 (SERIES F NPP118)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	1.3%	1.3%	0.7%	1.6%	4.8%	3.6%	3.2%	4.5%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS[1]
AS OF JANUARY 31, 2020 (SERIES A NPP506)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	0.6%	0.6%	1.1%	1.3%	5.1%	3.4%	4.1%	4.8%

[1] All Ninepoint Diversified Bond Fund 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, 2019 [1] 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, 2019.

The Ninepoint Diversified Bond Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: Capital depletion risk (Series T, Series FT, Series PT, Series PFT, Series QT, and Series QFT shares only); Capital gains risk; Class risk; Concentration risk; Credit risk; Currency risk; Cybersecurity risk; Derivatives risk; Exchange traded funds risk; Foreign investment risk; Inflation risk; Interest rate risk; Liquidity risk; Regulatory risk; Securities lending, repurchase and reverse repurchase transactions risk; Series risk; Short selling risk; Specific issuer risk; Tax risk; Tracking risk.

The Ninepoint Credit Income Opportunities Fund is generally exposed to the following risks. See the offering memorandum of the Fund for a description of these risks: General Economic and Market Conditions; Assessment of the Market; Not a Public Mutual Fund; Limited Operating History for the Fund; Class Risk; Charges to the Fund; Changes in Investment Objective, Strategies and Restrictions; Unitholders not Entitled to Participate in Management; Dependence of the Manager on Key Personnel; Reliance on the Manager; Resale Restrictions; Illiquidity; Possible Effect of Redemptions; Liability of Unitholders; Potential Indemnification Obligations; Lack of Independent Experts Representing Unitholders; No Involvement of Unaffiliated Selling Agent; Valuation of the Fund's Investments; Concentration; Foreign Investment Risk; Illiquidity of Underlying Investments; Tax; Litigation; Fixed Income Securities; Equity Securities; Idle Cash; Currency Risk; Suspension of Trading.

Ninepoint Credit Income Opportunities Fund is offered on a private placement basis pursuant to an offering memorandum and are only available to investors who meet certain eligibility or minimum purchase amount requirements under applicable securities legislation. The offering memorandum contains important information about the Funds, including their investment objective and strategies, purchase options, applicable management fees, performance fees, other charges and expenses, and should be read carefully before investing in the Funds. Performance data represents past performance of the Fund and is not indicative of future performance. Data

based on performance history of less than five years may not give prospective investors enough information to base investment decisions on. Please contact your own personal advisor on your particular circumstance. This communication does not constitute an offer to sell or solicitation to purchase securities of the Fund.

Ninepoint Partners LP is the investment manager to the Ninepoint Funds (collectively, the "Funds"). Commissions, trailing commissions, management fees, performance fees (if any), other charges and expenses all may be associated with mutual fund investments. Please read the prospectus carefully before investing. The indicated rate of return for series F units of the Fund for the period ended April 30, 2019 is based on the historical annual compounded total return including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The opinions, estimates and projections ("information") contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners LP. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners LP is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540