Ninepoint Global Infrastructure Fund

April 2020 Commentary

Year-to-date to April 30, the Ninepoint Global Infrastructure Fund generated a total return of -5.45% compared to the MSCI World Core Infrastructure Index, which generated a total return of -6.39%. For the month, the Fund generated a total return of 2.05% while the Index generated a total return of 5.23%.

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

The COVID-19 outbreak has resulted in a full-stop to the global economy in order to prevent the uncontrolled spread of the deadly virus. Recent economic data points have been almost unbelievably bad, with initial US Q1 GDP estimates coming in at -4.8%, non-farm payrolls dropping 20.5 million (implying an unemployment rate of 14.7%) and approximately 33.5 million Americans filing initial unemployment claims. The physical, emotional and financial costs are quickly rising and will likely get even worse for many in the coming months.

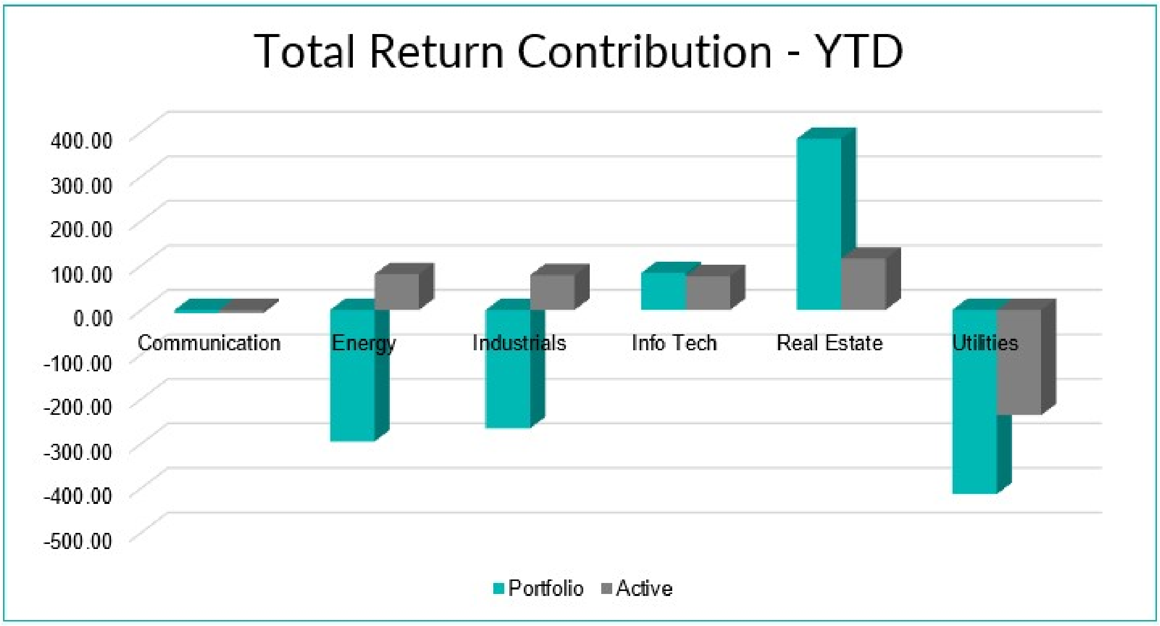
Given what we know today, it is unsurprising that the S&P 500 plunged 35% peak to trough in the fastest bear market in history, which is consistent with a sharp but short recession. But despite fears of a worst-case scenario and many investors' skepticism, the market has now recovered more than 50% of its decline after bouncing from the March 23, 2020 lows. Admittedly, much of the rally has been driven by a few mega-cap tech and healthcare names but in recent weeks even the more cyclical sectors have ripped higher. So how can we reconcile the explosive market recovery versus the abysmal economic data?

Conceptually, we view the dynamics of the recession more like a natural disaster-induced full-stop than a monetary policy-induced slowdown. Therefore, we have been watching three pillars of the response to estimate the duration of the downturn and the probability of a successful restart. As we've discussed previously, healthcare, monetary and fiscal policy have now taken a what-ever-it-takes mentality, which has provided a tremendous amount of support to the economy and markets. Importantly, this implies that the economic data and even earnings estimates (current consensus is already calling for more than a 20% decline on a year over year basis) are unlikely to continue to accelerate more meaningfully to the downside. And so, the improvement in the second derivative of various growth metrics and the anticipation of an inflection point have acted as a powerful tailwind behind the recovery rally.

Despite the market rally and some early signs that the worst has past, we are mindful that risk remains elevated and a pullback could happen at any time. The biggest problem that we see today regarding the reopening of the economy is that the United States has "flattened" but not "bent" the curve of active cases. More widespread testing, more effective therapies or treatments and clear progress toward a vaccine will be required before we can hope to return to some form of normality. But once the cumulative number of cases in the US begin to decline, we will become more confident in a sustained economic recovery and, potentially, a sustainable rotation into more cyclical sectors of the market.

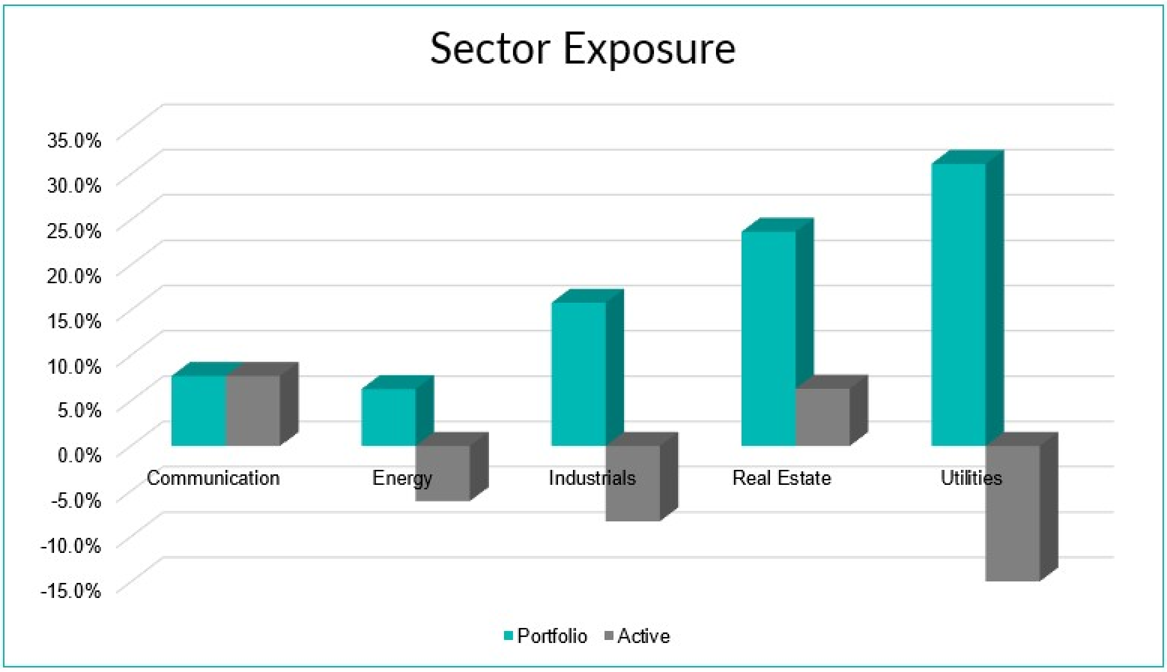
Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund by sector included Real Estate (+384 bps) and Information Technology (+83 bps) while top detractors by sector included Utilities (-414 bps), Energy (-295 bps) and Industrials (-266 bps) on an absolute basis.

On a relative basis, positive return contributions from the Real Estate, Energy and Industrials sectors were offset by negative contributions from the Utilities and Communication sectors. Note that the typically defensive Utilities sector has been surprisingly weak year-to-date, which we attribute to relatively higher-than average valuation levels prior to the selloff, higher-than-average balance sheet leverage and lower power demand. However, we expect the Utilities sector to demonstrate stability through earnings season, which should prove supportive to the share prices.



Source: Ninepoint Partners

We are currently overweight the Communication and Real Estate sectors, while underweight the Utilities, Industrials and Energy sectors. We are also holding a much larger than normal cash position (approximately 15%) given the difficulty in quantifying the impact of the COVID-19 outbreak on the economy as the tentative reopening begins.



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Equinix (+90 bps), Digital Realty Trust (+90 bps) and Crown Castle (+70 bps). Top detractors year-to-date included NextEra Energy Partners (-125 bps), Engie (-114 bps) and Pembina Pipeline (-102 bps).

In April, our top performing investments included Cellnex (+46 bps), Crown Castle (+30 bps) and Waste Connections (+29 bps) while Inwit (-33 bps), Eversource Energy (-32 bps) and NextEra (-30 bps) underperformed.

From a stock picking perspective, we are thinking of our investable universe in four buckets. Certain businesses that will never return to prior levels, quality cyclical business that require a return to economic growth, secular growers that have de-rated relative to historic levels and certain businesses that can thrive in the current environment. Our performance through the downturn benefitted greatly from an outsized cash position and an emphasis on buckets three and four, as defined above. But as the economic inflection nears and earnings revisions bottom, we will rely on our investment process to identify more cyclical investment opportunities to add to our portfolios in order to keep pace with the recovery rally.

The Ninepoint Global Infrastructure Fund was concentrated in 26 positions as at April 30, 2020 with the top 10 holdings accounting for approximately 36.1% of the fund. Over the prior fiscal year, 20 out of our 26 holdings have announced a dividend increase, with an average hike of 7.0%. 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

NINEPOINT GLOBAL INFRASTRUCTURE FUND - COMPOUNDED RETURNS[1]

AS OF APRIL 30, 2020 (SERIES F NPP356)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	2.0%	-5.4%	-11.3%	-4.6%	1.3%	4.1%	3.7%	6.7%
Index	5.2%	-6.4%	-10.4%	-4.8%	-1.8%	6.2%	7.7%	12.6%

[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 April 30, 2020; e) 2011 annual returns are from 09/01/11 to 12/31/11.

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