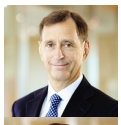
Ninepoint Fixed Income Strategy

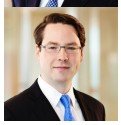
June 2019 Commentary

*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

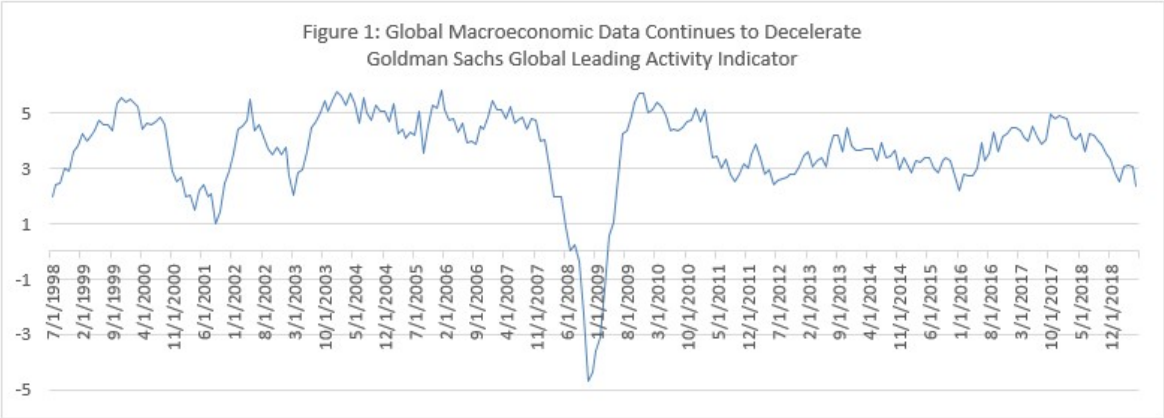
Chris Cockeram, MBA, CFA
Vice President, Associate Portfolio Manager

Macro

Between the Fed, the ECB and the G20, June was another busy month in global affairs.

After the escalation of the US/China trade war witnessed in May, all eyes were on the G20 meeting in Osaka, where Presidents Trump and Xi were scheduled to meet and discuss trade matters. Given the circumstances, the outcome of the meeting was as good as it could have been as both leaders agreed on a truce. Trump is pausing for now on further increases in tariffs (i.e. the last $300bn of goods imported from China) and agreeing to relax some export restrictions on technology firm Huawei. Both sides have agreed to resume talks, but at the time of writing, we have yet to see any meaningful interactions.

From our perspective, the damage of the trade war to the global economy has already been done. Business sentiment is low, companies are deferring investments and moving supply chains to other countries. This disruption is akin to a negative supply shock, which is now feeding through the global economy (Figure 1).



Source: Goldman Sachs

Notwithstanding the "trade truce", Central Bankers have acknowledged the increased risks to the downside and are acting promptly. First was the ECB's outgoing President Mario Draghi, who delivered a speech that cemented market expectations for another easing package. The Eurozone

economy remains very weak and inflation expectations are plummeting. The ECB has very few monetary bullets left, and it knows it. In this context, it is widely accepted amongst central bankers and academia that a strong and forceful response is the best course of action. As such, we expect the ECB to announce further rate cuts and another round of quantitative easing by their September meeting.

In the U.S., the Federal Reserve's Chairman Jerome Powell has all but confirmed market expectations for a rate cut in July. The main question now is how many further "insurance cuts" the Fed delivers against a constructive domestic backdrop and increasing downside risk to the global economy. It remains to be seen if a few decreases in the Federal Funds Rate will be enough to offset the negative shock to confidence stemming from the Trade War.

In Canada, the BoC kept rates unchanged at its most recent meeting, acknowledging the same cross-currents to global growth as other Central Bankers. However, given strong economic data and with inflation right on target, the tone was decidedly less dovish than Draghi or Powell. While the BoC is duly aware of the sensitivity to global (and particularly U.S.) growth of a small open economy like Canada, they have decided for now to remain patient.

With the Fed and the ECB all but certain to ease monetary policy (joining a plethora of other smaller central banks that have already eased in recent weeks), we find it odd that Governor Poloz would maintain a neutral bias. In the short term, diverging monetary policy stances should put upward pressure on the Canadian dollar. Eventually, Poloz will have no choice but to follow the global easing cycle. For now it seems like the BoC could be falling behind the curve.

Credit

Credit, just like equities, is performing very well. Both Investment Grade (IG) and High Yield (HY) spreads continue to grind tighter as the thirst for yield drives strong demand. We continue to believe that easier monetary policy on the back of weaker economic growth is nothing to be celebrated. Unless investors think that central banks will ease policy irresponsibly even if growth miraculously picks up, we see more downside than upside risks to equities and credit.

Diversified Bond Fund (DBF)

June was a good month for the DBF, returning 41bps, driven by a combination of spread tightening and carry. We continue to increase duration and our government bond allocation, consistent with our investment framework and macroeconomic views. We added 30-year Canadian government bonds to the portfolio, taking our duration up to 5.4 years.

With 23% government bonds and a very conservative IG and HY positioning, we would not expect drastic changes to the portfolio in the near term. On the margin, we are exploring options to best benefit from a second round of QE in Europe and might modify the composition of our eurozone government bonds.

Diversified Bond Fund Portfolio Characteristics:

	Limits	Dec 2017	Mar 2018	Jun 2018	Sept 2018	Dec 2018	Mar 2019	June 2019	Outlook
Government Bonds	**100%**	-2%	0%	-4%	2%	1%	7%	**22%**	↔
Investment Grade	**80%**	37%	56%	66%	73%	76%	72%	**58%**	↔
High Yield	**40%**	32%	24%	17%	16%	13%	14%	**9%**	↔
Emerging Market Governments	**10%**	0%	0%	0%	0%	0%	0%	**0%**	↔
Preferred Equities	**10%**	6%	6%	6%	6%	2.5%	0.7%	**0%**	↔
Common Equities & ETFs	**10%**	0%	0%	0%	1.5%	1.5%	4.3%	**2.4%**	↔
Derivatives	**+/- 2.5%**	-0.1%	+0.5%	-0.1%	-0.05%	0.0%	0.0%	**-0.2%**	**N/A**
Cash and Equivalents		28%	14%	15%	1.5%	6%	2%	**9%**	↔
Total		100%	100%	100%	100%	100%	100%	**100%**	
Duration	**1 to 8 years**	2.4	2.1	2.3	1.0	2.4	3.4	**5.4**	↔
Geographic (% North America)	**>75%**	89%	90%	89%	93%	91%	87%	**85%**	↔
Unhedged FX Exposure	**20%**	0%	0%	0%	0%	0%	0%	**5.6%**	↓

Source: Ninepoint Partners

Credit Income Opportunities Fund (Credit Opps)

The Credit Opps returned 28bps in June. Returns were driven by two offsetting factors. First, as discussed previously, Canadian investment grade credit continues to perform well, benefiting the fund's credit positioning. On the flip side, the strong rally in HY led to offsetting losses in our credit hedges (through HYG options). Leverage remains low and stable, consisting primarily of two to five years' duration corporate bonds. Cash and equivalents is high, but this is primarily driven by our participation in the commercial paper market, where we have found attractive opportunities that yield considerably more than short term, highly rated corporate bonds.

Credit Income Opportunities Portfolio Characteristics:

	Limits	Oct 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019	June 2019	Outlook
Government Bonds	**100%**	0%	0%	0%	0%	6%	**0%**	↔
Investment Grade	**100%**	58%	55%	59%	53%	58%	**53%**	↔
High Yield	**40%**	29%	24%	23%	23%	19%	**16%**	↔
Private Loans	**10%**	3%	3%	3%	2%	2%	**3%**	↔
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%	**-0.4%**	**N/A**
Cash and Equivalents		6%	14%	11%	20%	15%	**28%**	↔
Total		100%	100%	100%	100%	100%	**100%**	
Duration	**0 to 5 years**	2.5	2.1	2.3	1.4	2.9	**2.2**	↑
Leverage	**0-4x**	0.7x	0.7x	0.8x	0.7x	1.0x	**1.0x**	↔
Unhedged FX Exposure	**>25%**	0%	0%	0%	0%	0%	**2.7%**	↓

Source: Ninepoint Partners

Conclusion

Global macroeconomic developments and the associated monetary response is top of mind. We continue to monitor the situation and, while we definitely have a bearish bias, we remember vividly the 2016 rebound in the global economy and as such remind open minded. After month end, we hedged both fund's US dollar exposure to 0%, consistent with our BoC outlook.

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

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS[1]

	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 DIVERSIFIED BOND CLASS - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	1.3%	1.3%	0.7%	1.6%	4.6%	3.4%	3.1%	4.6%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS[1]

	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 June 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 June 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 June 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