



Ninepoint Energy Fund Market View

March 10, 2020

Yesterday was a historic day. Following the (temporary?) dissolution of OPEC+ last Friday the price of oil fell by 24%, its largest decline since 1991. Energy stocks across the board were absolutely savaged. The S&P TSX Capped Energy Index fell by 27%...its largest one day decline in history. Household names like Canadian Natural Resources and Cenovus fell by 29% and 52% respectively. There was nowhere to hide. Our Fund fell by 36%...roughly its worst day ever by a factor of 3.

Investment Team



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As a result of the price collapse, companies have overnight gone into survival mode with Cenovus, Marathon, and others aggressively cutting 2020 capital spending while one small cap reduced its dividend by 90%. This is only the beginning. The oil and gas industry does not function at current oil prices: Large cap oilsand companies require \$41-\$46WTI to maintain dividend payouts and keep production flat, US shale requires around \$55WTI for production maintenance, and the average Canadian midcap requires around \$48-\$52WTI to maintain flat production (and pay their dividends). At the same time, the viability of many nations is threatened due to meaningfully higher fiscal break-evens...Russia and Saudi Arabia included. The easiest call in the world to make today is that the current oil price is completely unsustainable...the more difficult call is how long can the price collapse go on for? When will Saudi Arabia and Russia come back to the negotiating table?

Saudi Arabia's unprecedented actions of discounting their oil and ramping "production" to 12.3MM Bbl/d are a result of a difference in strategy with Russia and are clearly intended to exert as much short-term pressure as possible to bring them back to the table. Everyone loses in a price war. Every member of OPEC+ other than Russia supported a meaningful production cut due to the demand hit from the coronavirus. Russia is purportedly miffed at the US for ongoing sanctions and for using "energy independence" as a tactical weapon against it. Despite some rather boastful claims over the past day from all parties, no one can withstand current prices over the long term. All of our main consultants believe that the current policy will only last a few months before Saudi Arabia and Russia ultimately arrive at a solution. By that time it is likely that the demand destruction from the coronavirus outbreak will have peaked. Better days are ahead...we just have to make it to them.

So what were we doing yesterday? We sold our one US name and bought a low-cost oilsands producer whose stock was down by 50% (the Fund now has 100% Canadian content...Canadian producers at least benefit from a \$0.73 loonie when they sell their oil in US dollars but have operating costs in \$CDN). We added to another oilsand name that is 55% hedged this year at \$59WTI (with swaps) as the stock collapsed by 56%. We also went through the structure of the hedge books of our positions and trimmed exposure to any name that may fall into trouble if the price rout lasts for longer than 6 months. Now is not the time to take on extreme risk. Our goal is to be in companies that can weather this storm as best as possible to allow us to be fully exposed to

the sector for the inevitable turn. All it will take is one headline about a Saudi/Russia meeting and energy stocks could easily gap up by 20%+ in a day...if you're not positioned for that event human psychology will prevent you from chasing the rally hoping for a pullback that may never come.

How can we possibly still be bullish over the medium term on the energy sector? The world's population continues to grow and living standards are rising and this corresponds to increasing energy demand. There is no substitution for oil for air travel, marine travel, long haul transportation, and petrochemicals. Demand (other than during global pandemics) will continue to grow by about 1MM Bbl/d per year for many years to come. Supply before this price war was already about to shrink and will now collapse. US shale growth was already imploding and now will likely hit a negative year-over-year run rate in the coming months. Global offshore production (1 in 4 barrels produced) was already set to plateau/decline beginning in 2020 and last until there is adequate reinvestment (not likely below \$60 Brent). Spare capacity globally (adjusted for the Saudi production spike) was only ~2MM Bbl/d in a 100MM Bbl/d market which is very thin.

We are living through the most difficult time for the energy sector in history. Never before have we had to deal with both a demand shock resulting from a viral pandemic while the #2 and #3 largest oil producers enter into a short-term price war. It is impossible to predict when things will turn but with some stocks down 70%+ YTD and financial viability for most not in question there comes a point when you've reached the point of maximum pessimism. Following yesterday's capitulative action (stocks down 50% on record high volumes) it feels that at least the worst may be nearly over. Now it is a question of patience and staying power to ensure that we are all positioned for the turn. This too shall pass.

Ticker	%1D	Last Price	Net	Volume	Bid S	Bid	Ask	Ask S	Chg WTD	%1M	%3M	%YTD	RSI 1D	Ticker	%1D	Last Price	Net	Volume	Bid S	Bid	Ask	Ask S	Chg WTD	%1M	%3M	%YTD
TVE CN	-30.2%	1.88	-38	3,529,207	117	.86	.88	39	--	-47.6%	-50.8%	-56.0	25	WCCUO	+4.6%	s-14.50	+7.0						--	+13.4%	+29.4%	+17.1
ERF CN	-37.6%	12.94	-1.77	6,867,404	421	2.94	2.95	118	--	-56.9%	-57.4%	-68.2	16	WCCVO	+1.2%	s-16.85	+2.0						--	+6.6%	+24.3%	+3.4%
NVA CN	-41.8%	1.92	-66	3,844,653	111	.89	.92	61	--	-60.0%	-63.7%	-71.2	20	WCCZO	+1.2%	s-16.95	+2.0						--	+8.4%	+24.3%	+4.5%
BTE CN	-41.1%	1.63	-44	27,398,996	880	.63	.64	112	-20.6%	-55.3%	-62.4%	-66.3	29		+1.1%	s-17.20	+2.0						--	+7.8%	+23.9%	+6.3%

Source: Bloomberg, market close March 10, 2020

Eric Nutall
Partner, Senior Portfolio Manager

Ninepoint Partners

NINEPOINT ENERGY FUND - COMPOUNDED RETURNS¹ AS OF FEBRUARY 29, 2020 (SERIES F NPP008)

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEPTION
Fund	-12.9%	-30.9%	-16.6%	-3.9%	-23.5%	-27.1%	-17.5%	-7.8%	-5.2%	-1.4%
Index	-11.2%	-21.0%	-11.6%	-6.6%	-24.2%	-13.9%	-9.7%	-5.9%	-1.9%	0.2%

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 February 29, 2020; e) 2004 annual returns are from 04/15/04 to 12/31/04. The index is 100% S&P/TSX Capped Energy TRI and is computed by Ninepoint Partners LP based on publicly available index information.

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