Ninepoint Fixed Income Strategy

November 2020 Commentary

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

Investment Team

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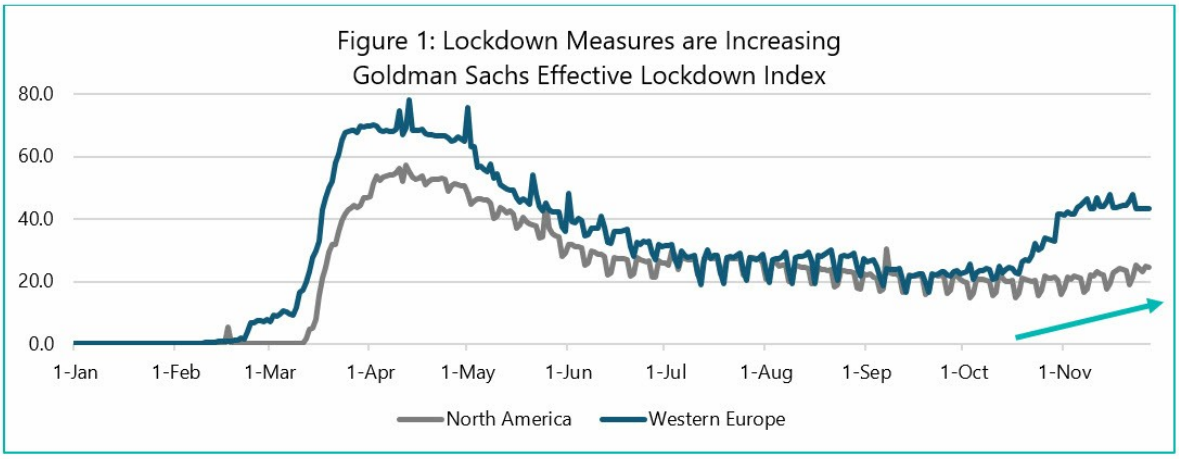
Macro

November was the month for vaccines and the "reopening" trade; small caps, value stocks and distressed high yield bonds had a formidable month, as investors rapidly rotated into the investments they though would benefit the most from a return to "normal". At the time of writing, both the Pfizer and Moderna vaccines had reported >90% efficacy and should start being distributed in the US, Canada and the UK around mid-December, although in small quantities. The Astrazeneca vaccine also reported good efficacy numbers (70%), but it was later released that manufacturing inconsistencies had tainted the results consequently the trials would need to be extended.

The two remaining unknowns are how extensively those vaccines will be distributed and what will be the uptake by individuals. The most expensive and effective vaccines (Pfizer and Moderna) need to be kept at very low temperatures and the supply chain logistics required have pushed Pfizer to design their own dry ice shipping containers. Additionally, those vaccines require two injections, which further complicate the administration of the vaccination program. So, while manufacturers assure us that they will produce enough doses to vaccinate a large portion of the north American population by the third quarter 2021, the jury is still out on whether or not the logistics and medical supply chains will be able to deliver this outcome.

The other important question is, what will be the uptake by the general population? Experts say that we need about 70% of the population to be immune to the disease to develop herd immunity, the threshold for return to "normal". Figures across countries vary, but recent polls show that only about 35-60% of the citizens of countries such as US, UK and France are willing to get vaccinated for COVID-19. That's still too low for herd immunity, but we suspect that over time, as the vaccines prove their safety and efficacy, the people's reluctance to take them will diminish.

Still, the "grand reopening" assumption that the market is currently trading under is a probable scenario, but the timing remains very much an open question, and with every passing day under restrictions/lockdown, the damage to the economy becomes a bit more persistent. Following in Europe's footsteps, the second (or third?) wave of COVID-19 infections and the associated lockdowns across many regions of North America serves as a reminder that, as good as the vaccine news is , we are not out of the woods just yet (Figure 1).

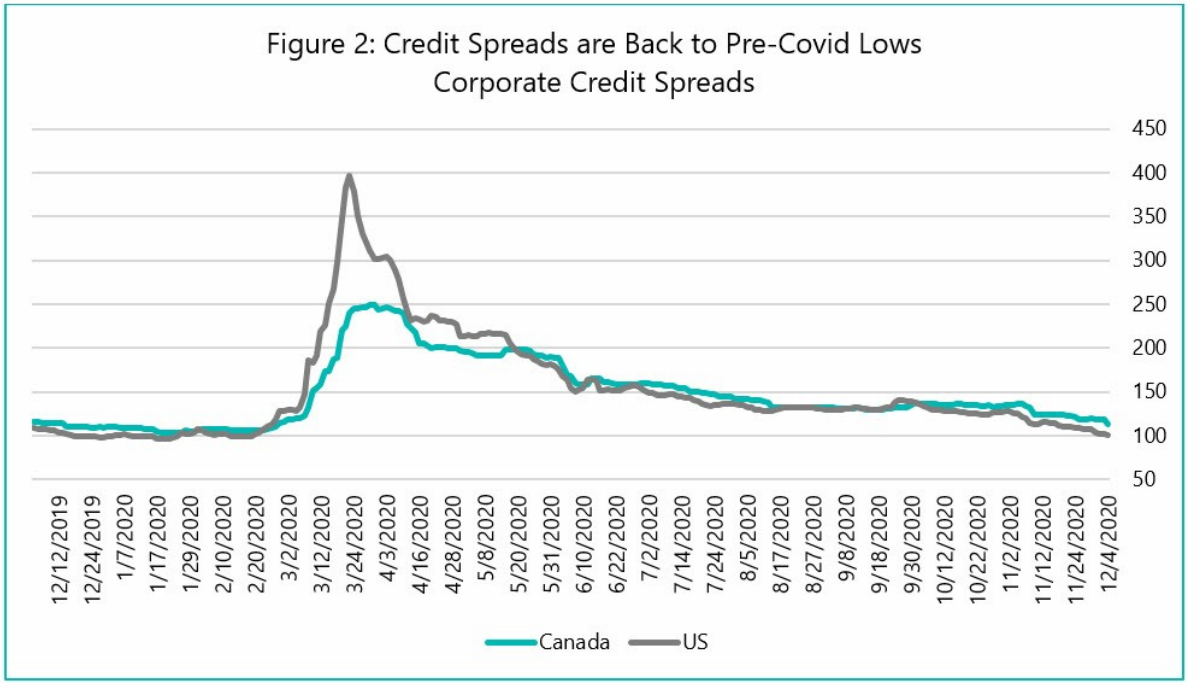


Source: Bloomberg

Monetary authorities are well aware of this reality, hence their insistence on more stimulus. In Europe, the ECB has recently increased its QE program by 500bn Euros and extended its subsidized lending programs to banks by another 12 months. In the U.S., given the lack of additional fiscal impulse and the deceleration of the economic data in November, we expect that the Federal Reserve will need to provide additional forward guidance on its quantitative easing programme at its December meeting. Furthermore, it is highly likely that they decide to tilt their purchases of treasuries to the long end, keeping rates better anchored along the yield curve.

Credit

Following the positive vaccine news, credit, just like equities, continued to rally strongly. As of November month-end, corporate credit spreads were within a few basis points of their pre-covid lows (Figure 2). The rally has been relentless, appetite for corporate bonds is such that the few new issues that came to market last month were sometimes oversubscribed by a factor of six.



Source: Bloomberg

Current market conditions feel stretched. As discussed last month, given our outlook for interest rates

(very low for a long time), it is natural for investors to congregate to spread product, as it is the only place where one can generate an acceptable return. However, at current spread levels, we find it hard to get overly excited to put money to work. As long-time readers would know by now, we are disciplined in our process, preferring to reduce risk when market conditions feel stretched, as opposed to increasing risk to reach for additional return. Accordingly, we are taking a wait and see approach.

Diversified Bond Fund (DBF)

November was a good month for the DBF, gaining 84bps. Most of the month's returns were driven by the strong performance of our credit positions. Also, the large increases in interest rates witnessed ahead of the US Election have subsided as the outlook for further fiscal stimulus have diminished. While we still maintain a position in long term government bonds for ballast, we have decided to protect the portfolio from further rates induced volatility by moving some of our US treasuries into the TLT ETF and entering into a no cost put spread collar. These changes effectively reduce the volatility of those positions by half but maintain our upside participation should rates decline. These changes affect the geography of the fund characteristics table below, (government bonds decline, ETFs increase). Fund duration has declined, mostly due to the effect of the TLT options (-0.2 years). Over the next month we will be evaluating the second wave of the virus and its impact on growth relative to our positioning. We should also have some clarity on the US fiscal package and perhaps some new information on changes to the Fed's purchasing program. Its still early, but our bias is to start reducing our government bond positions and the duration of those securities. On the credit front we are considering extending the duration of our IG credit, potentially adding some high yield if conditions warrant. Emerging markets are also a consideration, as they should benefit from an extended period of low interest rates.

Diversified Bond Fund Portfolio Characteristics

	Limits	Dec 2017	Mar 2018	Jun 2018	Sept 2018	Dec 2018	Mar 2019	Jun 2019	Sept 2019	Dec 2019	Mar 2020	June 2020	Sept 2020	Nov 2020	Outlook
Government Bonds	**100%**	-2%	0%	-4%	2%	1%	7%	22%	28%	13%	9%	9%	14%	**10%**	↓
Investment Grade	**80%**	37%	56%	66%	73%	76%	72%	58%	61%	58%	78%	80%	71%	**75%**	↔
High Yield	**40%**	32%	24%	17%	16%	13%	14%	9%	7%	6%	13%	11%	12%	**11%**	↑
Emerging Market Governments	**10%**	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	**1%**	↑
Preferred Equities	**10%**	6%	6%	6%	6%	2.5%	0.7%	0%	0%	0%	0%	0%	2%	**1%**	↑
Common Equities & ETFs	**10%**	0%	0%	0%	1.5%	1.5%	4.3%	2.4%	-1.3%	0%	0%	-6%	-5%	**-2%**	↔
Derivatives	**+/- 2.5%**	-0.1%	+0.5%	-0.1%	-0.05%	0.0%	0.0%	-0.2%	0.0%	0.2%	0%	0%	0.1%	**0%**	**N/A**
Cash and Equivalents		28%	14%	15%	1.5%	6%	2%	9%	6%	22%	0%	6%	6%	**4%**	↔
Total		100%	100%	100%	100%	100%	100%	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	6.5	4.3	3.8	5.9	6.2	**4.7**	↓
Spread Duration		-	-	-	3.4	2.9	3.0	2.3	3.1	3.0	2.2	4.1	3.8	**2.9**	↑
Unhedged FX Exposure	**20%**	0%	0%	0%	0%	0%	0%	6%	5%	3%	3%	5%	6%	**6.7%**	↔

Source: Ninepoint Partners

Credit Income Opportunities Fund (Credit Opps)

Credit continued to perform exceptionally well throughout November and the Credit Opps fund had a solid month, returning 2.94%. Over the month we participated in many attractive new issues. Consequently, we increased leverage slightly to take advantage of these opportunities. Although its difficult to fight this move in credit we think its prudent to lighten up on some of the credit positions we purchased this year, reducing leverage in the coming months. We have a great line-up of securities and trades that we are currently researching. Even in this ultra-low rate environment there still exists

opportunities to generate yield and higher income with attractive risk reward characteristics.

Credit Income Opportunities Portfolio Characteristics

	Limits	Oct 2018	Dec 2018	Mar 2019	June 2019	Sept 2019	Dec 2019	Mar 2020	June 2020	Sept 2020	Nov 2020	Outlook
Government Bonds	**100%**	0%	0%	6%	0%	18%	0%	0%	0%	0%	**0%**	↔
Investment Grade	**100%**	58%	55%	58%	53%	68%	64%	72%	65%	77%	**72%**	↔
High Yield	**40%**	29%	24%	19%	16%	10%	6%	22%	28%	26%	**21%**	↑
Private Loans	**10%**	3%	3%	2%	3%	2%	2%	4%	7%	6%	**7%**	↑
Preferred Equities	**10%**	4%	4%	0.5%	0%	0%	0%	0%	0%	0%	**0%**	↑
Common Equities & ETFs	**10%**	0%	0%	0%	0%	-7%	-7%	-10%	-15%	-13%	**-13%**	↔
Derivatives	**+/- 2.5%**	0%	0%	0%	-0.4%	0%	0%	0%	1%	0%	**1%**	**N/A**
Cash and Equivalents		6%	14%	15%	28%	8%	32%	12%	8%	2%	**-3%**	↔
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	**100%**	
Duration	**0 to 5 years**	2.5	2.1	2.9	2.2	2.9	1.7	2.6	3.3	5.1	**4.3**	↔
Leverage	**0-4x**	0.7x	0.7x	1.0x	1.0x	0.77x	1.04x	0.87x	1.67x	1.15x	**1.34x**	↔
Unhedged FX Exposure	**<25%**	0%	0%	0%	2.7%	5.1%	-3.2%	0%	0.3%	0%	**2%**	↔

Source: Ninepoint Partners

Conclusion

We are in the middle of the second wave of the pandemic, restrictions and lockdowns are bound to increase and negatively impact economic activity. Markets are trading at all time highs, ignoring the present and instead focusing on a future when things come back to normal, thanks to widespread vaccination. While we do not disagree with the end point, the road to get there is bound to be a bit bumpier than what market participants seem to be implying. This apparent disconnect is traditionally a source of future volatility. We are patiently waiting for this volatility to deploy more capital.

Until next month,

Mark & Etienne
Ninepoint Partners

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS[1] AS OF FEBRUARY 28, 2023 (SERIES F NPP118) | INCEPTION DATE: AUGUST 5, 2010

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	-0.4%	1.8%	1.6%	0.3%	-5.8%	-1.5%	0.4%	2.2%	3.1%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS[1] AS OF FEBRUARY 28, 2023 (SERIES F NPP507) | INCEPTION DATE: JULY 1, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	0.8%	3.6%	3.5%	2.0%	-0.6%	5.0%	3.9%	4.4%

[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 November 30, 2020 [1] All Ninepoint Credit Income Opportunities Fund returns and fund details are a) based on Class F units; b) net of fees; c) annualized if period is greater than one year; d) as at November 30, 2020.

The Risks associated worth investing in a Fund depend on the securities and assets in which the Funds invests, based upon the Fund's particular objectives. There is no assurance that any Fund will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Fund will be returned to you. The Funds are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Fund's prospectus or offering memorandum before investing.

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 November 30, 2020 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.