



Ninepoint Fixed Income Strategy

May 2021 Commentary

This month, we're pleased to announce the launch of the **Ninepoint Alternative Credit Opportunities Fund**, a Liquid Alternative fund for investors who want access to a flexible credit strategy.

We now have a range of innovative fixed income solutions that offer investors more opportunities for income, greater flexibility to generate returns, and excellent portfolio diversification properties:

Investment Team



Mark Wisniewski,
Partner, Senior Portfolio
Manager



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

	Ninepoint Diversified Bond Fund / Class	Ninepoint Alternative Credit Opportunities Fund	Ninepoint Credit Income Opportunities Fund
Fund Type	Mutual Fund	Liquid Alternative	OM
Risk Rating	Low	Medium	Medium
Duration Range	1-8 years	0-5 years	0-5 years
Maximum High Yield*	40%	40%	40%
Maximum FX Exposure*	20%	20%	25%
Use of Options	Yes	Yes	Yes
Use of Shorts	Yes, limited to 10%	Yes	Yes
Use of Leverage	No	0 to 3 Times	0 to 4 Times
Use of Illiquid securities	No	Yes, limited to 10%	Yes
Offering Type	Prospectus	Prospectus	Offering Memorandum
ETF Class	Yes	Yes	No

* Maximum percentages are self-imposed by Portfolio Management team. Information above is subject to change without notice.

Just like we do every month, we will review changes to the Diversified Bond and Credit Income Opportunities Funds, and then will focus on the new Liquid Alt product, the **Ninepoint Alternative Credit Opportunities Fund**, discussing how this fund differs from our other mandates and how we expect it will behave in different market environments.

1. Diversified Bond Fund (Mutual Fund)

May was another good month for the Diversified Bond Fund (DBF), returning 44bps. As discussed last month, with poorer than expected economic data and expectations for Fed rate hikes having moderated, there has been a small decline in interest rates. We are mostly done extending the duration of our credit, with perhaps another 10-15% of the fund in short-dated positions that we may extend, should conditions be favourable. We have modestly increased our HY allocation, mostly driven by additions to hybrid bonds of IG corporates. Following month-end, we have slightly decreased our short position in government bonds, taking profits on 30-year corporates that were interest rate hedged.

Finally, with implied volatility very low and HY index credit spreads at the tight, we have initiated small option hedge in HYG, which we expect to modestly grow in the coming months. While we are not overly concerned with where valuations are and given how cheap hedges are, we think it is the prudent thing to do.

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	Dec 2020	Mar 2021	May 2021	Outlook
Government Bonds	100%	-2%	0%	-4%	2%	1%	7%	22%	28%	13%	9%	9%	14%	8%	-8%	-7%	↓
Investment Grade	80%	37%	56%	66%	73%	76%	72%	58%	61%	58%	78%	80%	71%	74%	84%	86%	↓
High Yield	40%	32%	24%	17%	16%	13%	14%	9%	7%	6%	13%	11%	12%	11%	12%	14%	↑
Emerging Market Governments	10%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%	1%	↔
Preferred Equities	10%	6%	6%	6%	6%	2.5%	0.7%	0%	0%	0%	0%	0%	2%	4%	6%	5%	↔
Common Equities & ETFs	10%	0%	0%	0%	1.5%	1.5%	4.3%	2.4%	-1.3%	0%	0%	-6%	-5%	-2%	0%	0%	↔
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%	0%	0%	N/A
Cash and Equivalents		28%	14%	15%	1.5%	6%	2%	9%	6%	22%	0%	6%	6%	5%	5%	1%	↓
Total		100%	100%	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	5.3	3.6	4.4	↔
Spread Duration		-	-	-	3.4	2.9	3.0	2.3	3.1	3.0	2.2	4.1	3.8	3.9	4.5	5.3	↑
Unhedged FX Exposure	20%	0%	0%	0%	0%	0%	0%	6%	5%	3%	3%	5%	6%	6%	0.5%	0%	↔

Source: Ninepoint Partners

2. Ninepoint Credit Income Opportunities Fund (OM)

It was another good month for the OM fund, returning 96bps. We did not make substantial changes to the portfolio, with the exception of having initiated a HYG hedge, similar to the one discussed above in our mutual fund, the **Diversified Bond Fund**.

Credit Income Opportunities Portfolio Characteristics

	Limits	Oct 2018	Dec 2018	Mar 2019	June 2019	Sept 2019	Dec 2019	Mar 2020	June 2020	Sept 2020	Dec 2020	Mar 2021	May 2021	Outlook
Government Bonds	100%	0%	0%	6%	0%	18%	0%	0%	0%	0%	0%	0%	0%	↔
Investment Grade	100%	58%	55%	58%	53%	68%	64%	72%	65%	77%	64%	53%	46%	↔
High Yield	40%	29%	24%	19%	16%	10%	6%	22%	28%	26%	26%	30%	27%	↑
Private Loans	10%	3%	3%	2%	3%	2%	2%	4%	7%	6%	6%	3%	3%	↑
Preferred Equities	10%	4%	4%	0.5%	0%	0%	0%	0%	0%	0%	5%	10%	9%	↔
Common Equities & ETFs	10%	0%	0%	0%	0%	-7%	-7%	-10%	-15%	-13%	-8%	0.3%	0.1%	↔
Derivatives	+/- 2.5%	0%	0%	0%	-0.4%	0%	0%	0%	1%	0%	1%	1%	1%	N/A
Cash and Equivalents		6%	14%	15%	28%	8%	32%	12%	8%	2%	3%	-0.5%	9%	↓
Total		100%	100%	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	3.8	2.6	3.0	↔
Leverage	0-4x	0.7x	0.7x	1.0x	1.0x	0.77x	1.04x	0.87x	1.67x	1.15x	1.04x	1.26x	1.39x	↑
Unhedged FX Exposure	<25%	0%	0%	0%	2.7%	5.1%	-3.2%	0%	0.3%	0%	2%	1%	0%	↔

Source: Ninepoint Partners

Performance of the OM product as at May 31, 2021 can be seen below:

Figure 1: The Credit Opps' time-proven strategy

As at May 31, 2021	1 Mth	YTD	3 Mth	6 Mth	1 Yr	3 Yr	5 Yr	Inception
Ninepoint Credit Income Opportunities Fund, Class A	0.99%	3.37%	2.09%	5.92%	21.38%	7.23%	6.99%	6.17%

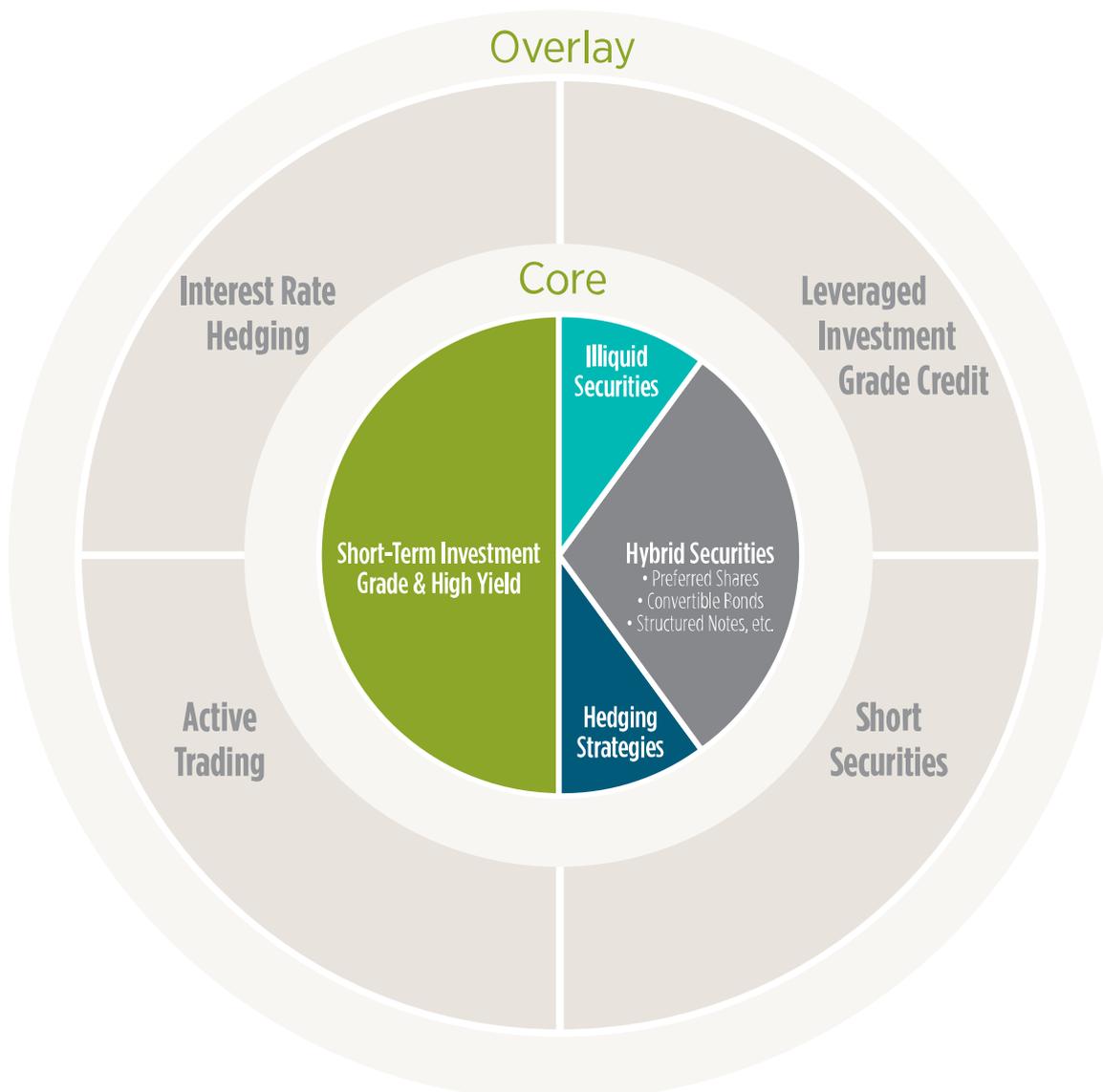
Source: Ninepoint Partners

3. Ninepoint Alternative Credit Opportunities Fund (Liquid Alt)

As we launch our new Liquid Alternative, the **Ninepoint Alternative Credit Opportunities Fund**, investors can now take advantage of a strategy that features daily pricing and liquidity, in addition to the convenience of an ETF class. Given our style and risk management framework, most of the strategies used by our OM fund are available to our new Liquid Alt.

Portfolio Construction

The best way to think about the Liquid Alt's portfolio is through the schematic below:



To effectively execute this strategy, we essentially run two different portfolios that, once combined, produce enhanced income and return. We refer to them as the *Core*, and the *Overlay*.

The *Core* portfolio consists of the same type of securities we would typically own in our mutual fund, the Diversified Bond Fund (DBF): corporate bonds, high yield bonds, hybrid securities

(e.g., preferred shares, LRCN, hybrid bonds, asset backed securities, etc.) and portfolio hedges. But there are a few important differences between our **Liquid Alt Core** portfolio and the DBF:

a) Duration: in the DBF, we actively alter the duration of securities depending on the macroeconomic environment. In our **Liquid Alt Core** portfolio, the duration of the securities we buy is modest, typically ranging between one and five years. We would very rarely buy government bonds in the **Liquid Alt Core** portfolio. Our focus is primarily credit.

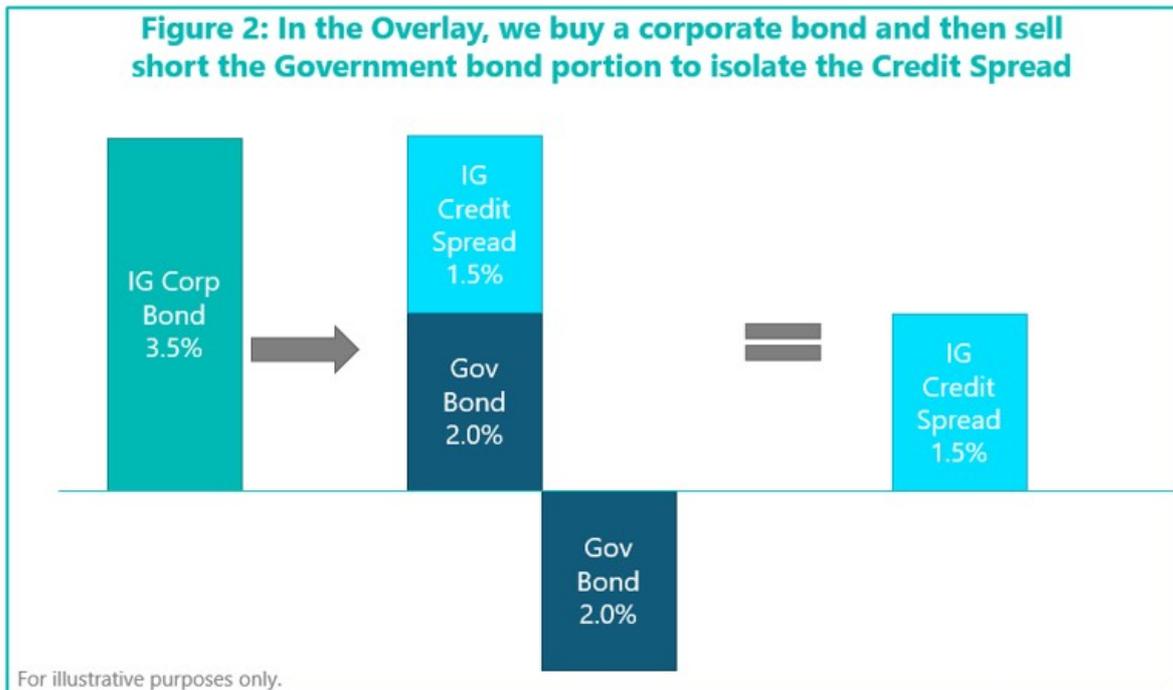
b) Hybrid Securities: We make greater use of hybrid securities in the **Liquid Alt Core** portfolio than in the DBF. These securities are lower in the capital structure but yield significantly more than most investment grade quality credit. As we have a higher risk tolerance in our **Liquid Alt** fund than in the DBF, we are comfortable having a bigger weight.

c) Illiquid Securities: mutual fund rules allow us up to 10% of NAV in illiquid securities. In the DBF, we do not make much use of this illiquid bucket as we target higher liquidity and lower volatility, but in the **Liquid Alt Core** portfolio, we will include a small sleeve of less liquid securities such as bespoke loans, structured notes, and over-the-counter derivatives. From a credit perspective, these securities aren't riskier – they are simply harder to liquidate in volatile markets.

d) Hedging: since there is less duration utilized in this portfolio, we use less active hedging duration in the **Liquid Alt Core** portfolio than we would in the DBF. However, due to a higher concentration of credit securities and the absence of government bonds in the **Liquid Alt** fund, we naturally need to employ more credit hedges. Like the DBF, we use options on fixed income ETFs such as HYG, LQD and JNK, but we will also be using Credit Default Swaps (CDS) indices and their options to hedge credit risk more directly. The advantage of using CDS is that they carry very little duration (as opposed to the ETFs) and allow us to directly hedge investment grade credit risk (LQD has too much duration). So overall, a more active and targeted credit hedging program is used in the Liquid Alt, to reflect the higher concentration of credit the fund holds.

Depending on market conditions, we expect this **Liquid Alt Core** portfolio to yield between 3% and 5% with a duration of between one and five years. This *Core* portfolio typically represents between 95% to 100% of NAV.

The *Overlay* portfolio, as its name implies, is where we employ leverage, a crucial tool afforded to us by the Liquid Alternative rules. The bulk of the **Liquid Alt Overlay** consists of high-quality investment grade bonds of intermediate duration (4 to 10 years), where the duration is hedged by shorting the associated benchmark government bond (Figure 2). Shorting a government bond achieves two things: it generates cash to buy the corporate bond and it immunizes the portfolio from interest rate risk (i.e. duration). So essentially, the **Liquid Alt Overlay** is a diverse and laddered portfolio of investment grade corporate bonds where we hedge all the interest rate sensitivity. The *Overlay* portfolio then earns the Credit Spread.



In the **Liquid Alt Overlay**, we also have the ability to short corporate or high yield bonds outright, if we believe that they are overvalued. We also enter into carry trades where, for example, a bond gets called and we fund the position for a month or two.

A word on leverage: we have managed leveraged credit strategies throughout several market cycles, starting with the Great Financial Crisis in 2008, and have had firsthand experience on how damaging excessive leverage can be. We believe that it's prudent to use a moderate amount of leverage in our **Liquid Alt** strategy, on average between 0.5x to 1.5x. We have found that, over time, this amount of leverage, along with our other risk management strategies, maximises return without incurring excessive volatility and drawdowns.

So, like the DBF, we strategically alter the characteristics of the **Liquid Alt Overlay** portfolio to be opportunistic or defensive, and the amount of leverage used is just one of the many levers we have at our disposal to alter credit risk in the portfolio.

On average, over time, we expect the **Liquid Alt Overlay** portfolio to generate between 2% to 3% of yield, with no duration risk.

Putting it all together, the *Core* plus the *Overlay* portfolios, gets us to the **Alternative Credit Opportunities Fund**, where we expect total portfolio yield to be in the range of 5% to 8%, with duration in the range of 1 to 5 years.

We find that this strategy performs well in all interest rate environments (e.g. rising or declining rates) and that, because of our active risk management and hedging, we can handle many different market gyrations without incurring unacceptable drawdowns. Drawing from our experience with our OM fund, we expect that our **Liquid Alt** strategy will not exhibit a very high beta or correlation with traditional fixed income or high yield, making it a strong potential

alternative and portfolio diversifier.

As we have done with our other funds, we will publish the following table every month in this commentary, so investors can keep track of changes to the portfolio positioning:

Alternative Credit Opportunities Fund Portfolio Characteristics

	Limits	May 2021	Outlook
Government Bonds	100%	0%	↔
Investment Grade	100%	58%	↔
High Yield	40%	36%	↑
Illiquid Securities	10%	0%	↑
Preferred Equities	10%	8%	↔
Common Equities & ETFs	10%	0%	↔
Derivatives	+/- 2.5%	%	N/A
Cash and Equivalents		-2%	↔
Total		100%	
Duration	0 to 5 years	3.0	↔
Leverage	0-3x	1.4x	↑
Unhedged FX Exposure	<20%	0%	↔

Source: Ninepoint Partners

To learn more about the **Ninepoint Alternative Credit Opportunities Fund**, you can also listen to a webinar we hosted earlier this month: ***A High-Net-Worth Strategy for Every Portfolio*** ([listen here](#)).

Conclusion

The environment continues to be conducive to our strategies and we are appropriately positioned. We do not foresee a drastic change to positioning until we start getting closer to the Jackson Hole Symposium in August, where we expect the Fed to start talking about QE tapering.

Mark & Etienne

Ninepoint Partners

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS¹
AS OF MAY 31, 2021 (SERIES F NPP118)

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	0.4%	-0.6%	0.6%	-0.3%	3.4%	3.4%	3.9%	3.8%	4.4%

NINEPOINT DIVERSIFIED BOND CLASS - COMPOUNDED RETURNS¹
AS OF MAY 31, 2021 (SERIES F NPP221)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	0.4%	-0.6%	0.5%	-0.4%	3.3%	3.2%	3.8%	4.4%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS¹
AS OF MAY 31, 2021 (SERIES F NPP507)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	1.0%	3.3%	2.0%	5.7%	20.3%	7.1%	6.8%	6.0%

¹ All Ninepoint Diversified Bond Fund/Class 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 May 31, 2021 ¹ All Ninepoint Credit Income Opportunities Fund returns and fund details are a) based on Class F units (closed to subscriptions); b) net of fees; c) annualized if period is greater than one year; d) as at May 31, 2021.

The Risks associated with 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 May 31, 2021 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