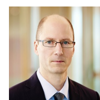
Ninepoint Global Infrastructure Fund

February 2023 Commentary



Jeff Sayer, CFA
Vice President, Portfolio Manager

Year-to-date to February 28, the Ninepoint Global Infrastructure Fund generated a total return of -1.30% compared to the MSCI World Core Infrastructure Index, which generated a total return of -1.19%. For the month, the Fund generated a total return of -2.54% while the Index generated a total return of -3.21%.

Ninepoint Global Infrastructure Fund - Compounded Returns[1] As of February 28, 2023 (Series F NPP356) | Inception Date: September 1, 2011

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	Inception
Fund	-2.5%	-1.3%	-4.8%	-5.4%	2.6%	5.3%	7.1%	7.0%	7.2%
MSCI World Core Infrastructure NR (CAD)	-3.2%	-1.2%	-4.0%	-2.6%	1.1%	4.2%	7.8%	10.2%	10.9%

After a horrible year for investors in 2022, the markets rebounded strongly in January, with the worst performing sectors of 2022 leading (Consumer Discretionary, Communication Services and Technology) and the winners of 2022 lagging (Utilities, Health Care and Consumer Staples). However, in February, the markets reversed some of those gains, particularly in the high beta sectors, and the S&P 500 declined 2.44% on a total return basis. We believe that investors need to be particularly careful about being whipsawed during what could be a volatile but rangebound market over the balance of 2023.

Although short-term narratives are less important than the long-term fundamentals from our perspective, we would point to a few reasons for the pullback in February. First, the calendar Q4 2022 earnings that were released through the month were generally not supportive of the monster rally that had occurred in January. According to FactSet, with 99% of the S&P 500 companies reporting actual results, the quarterly earnings season was "subpar" and fewer companies beat expectations than average. Interestingly, though the blended revenue growth rate for Q4 2022 came in at 5.3%, the blended earnings growth rate came in at -4.6%, the first year-over-year decline since Q3 2020. Margin pressures (driven by the rising cost of raw materials, supply chain inefficiencies, increasing labour costs and other factors) were apparent in the quarter. We expect that Q1 2023 will show the greatest year-over-year decline for the cycle, with less negative results in Q2 2023 before a return to growth in Q3 or Q4 2023.

With the quarterly earnings season essentially complete, the negative earnings revision cycle still seems to be stabilizing. Although the 2023 S&P 500 earnings estimates have declined from a high of $255 to $218 today, the revisions have been decelerating since about mid-December. However, the consensus estimate is now slightly lower than at the end of January and implies negative earnings growth on a year-over-year basis from 2022 to 2023. Given weaker expectations and therefore sentiment, the second reason for the broad market's disappointing performance in February was a reduction in the forward price to earnings multiple. Recall, that the multiple for the S&P 500 compressed from approximately 21x NTM estimates at the beginning of 2022, bottomed at just 15x NTM estimates in October, rebounded to 19x NTM estimates at the end of January before correcting to 17.5x NTM estimates at the end of February (according to Refinitiv). Clearly, investors are still struggling to find the appropriate price to earnings multiple to use but, importantly, 2024 S&P 500 earnings estimates (currently

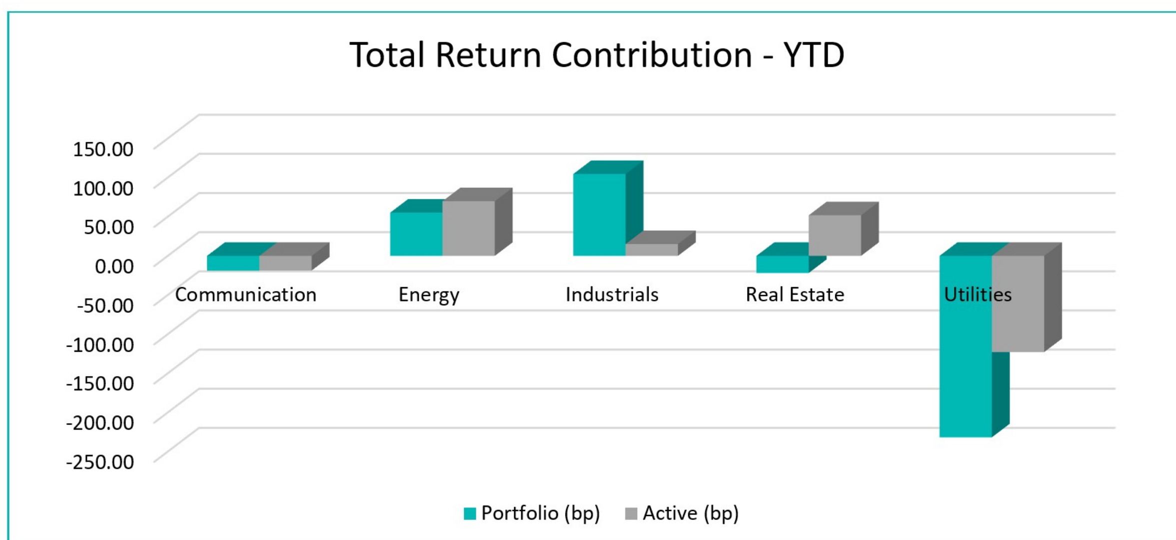
approximately $230) imply modest earnings growth from 2023 (likely the trough year for the cycle).

The final explanation for the broad market weakness in February was the renewed push higher of the expected Fed Funds terminal rate. Despite inflation peaking in June at 9.1% and steadily trending lower ever since, the deceleration was less dramatic in January (released on February 14), falling to 6.4% compared to 6.5% in December. Unfortunately, the January non-farm payrolls data didn't really help the "inflation-is-cooling narrative", with 517,000 jobs created and the unemployment rate remaining at 3.4%. This led the market to reprice the terminal rate for the cycle from perhaps two more hikes of 25 bps each to a range of 5.0% to 5.25% to possibly three more hikes of 25 bps each to a range of 5.25% to 5.50% with a small chance of an additional hike by September. We doubt that the Fed will move beyond the range of 5.25% to 5.50% and, although we don't expect a pivot to easing monetary policy in 2023, we think that a pause would be supportive for equity valuations enough to fuel the start of a new bull market.

We do believe that in an environment of moderating inflation but slowing growth through 2023, the most important drivers of investment performance will likely be valuation, balance sheet strength and the ability to consistently generate cash flow and earnings. Also, a greater component of total returns will likely come from dividend yields, which meshes nicely with our investment philosophy. In keeping with our mandates, we are concentrating our efforts on free cash flow positive, high quality, dividend growth companies and real asset investments given our positive assessment of the risk/reward outlook over the next two to three years.

Top contributors to the year-to-date performance of the Ninepoint Global Infrastructure Fund by sector included Industrials (+105 bps) and Energy (+59 bps) while top detractors by sector included Utilities (-231 bps), Real Estate (-22 bps) and Communication (-19 bps) on an absolute basis.

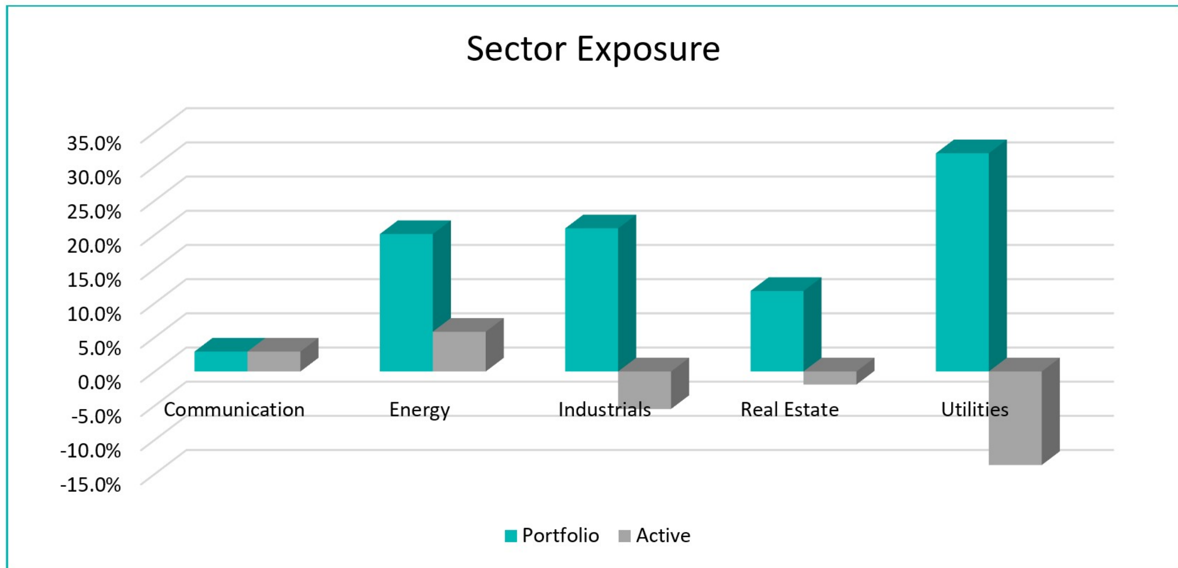
On a relative basis, positive return contributions from the Energy (+77bps), Real Estate (+52 bps) and Industrials (+15 bps) sectors were offset by negative contributions from the Utilities (-117bps) and Communication (-19 bps) sectors.



Source: Ninepoint Partners

We are currently overweight the Energy and Communication sectors and underweight the Utilities, Industrials and Real Estate sectors. With the US Federal Reserve expected to pause interest rate hikes in 2023, we are carefully watching for the negative earnings revision cycle to bottom and unemployment to peak to signal the start of a new equity bull market. We remain focused on high quality infrastructure equities that have demonstrated the ability to consistently generate revenue and earnings growth through the cycle.

We continue to believe that the clean energy transition will be one of the biggest investment themes for many years ahead and infrastructure stands to be a clear beneficiary. Therefore, we are comfortable having exposure to both traditional energy investments and renewable energy investments given the importance of energy sustainability and security of supply around the world.



Source: Ninepoint Partners

The Ninepoint Global Infrastructure Fund was concentrated in 30 positions as at February 28, 2023 with the top 10 holdings accounting for approximately 31.7% of the fund. Over the prior fiscal year, 14 out of our 30 holdings have announced a dividend increase, with an average hike of 12.8% (median hike of 0.0%). 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

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The fund has been named Refinitiv Lipper Fund Awards Canada 2022 Winner, Best Global Infrastructure Equity Fund, over a three-year period out of a total of 13 funds ending July 31, 2022.

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[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 28, 2023; e) 2011 annual returns are from 09/01/11 to 12/31/11. The index is 100% MSCI World Core Infrastructure NR (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

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