



# Ninepoint Concentrated Canadian Equity Fund

## April 2020 Commentary

While the month started with continued fear and uncertainty, the S&P/TSX bounced back adding 10.8%. Materials (+33%), Information Technology (+29%) and Consumer Discretionary (+20%) led the market rise while Communication Services (-0.2%), Financials (+2%) and Utilities (+4%) all lagged.

Our portfolio underperformed as security selection in Materials along with sector positioning (driven by our bottom-up value philosophy) in Financials and Information Technology detracted value. Offsetting these losses were gains from security selection in Energy and Industrials.

In Energy, our positions in Cenovus (+78%), Orintiv (+125%) and Crescent Point Energy (+78%) all added value. Despite the volatility in oil prices and the concerns about balance sheet risk for these companies, they bounced back from very depressed levels. These companies have been hard hit with the drop in oil prices but represent substantial upside if/when oil prices recover (as logic suggests they should based on simple economics).

In the Industrials sector, our positions in ATS Automation (+25%) and Westshore Terminals (+14%) both added value. ATS Automation, a position we have been trying to build to the 3% target level since mid-March, has rallied as the company is currently active in helping manufacturers address the critical need for medical equipment amidst the COVID-19 pandemic. While we like the company, we are not prepared to chase it. Westshore rallied as they continue to generate decent shipping volumes from their Vancouver port facility. We continue to believe there is great upside potential for the name.

In Materials, Nutrien Ltd (+3%) and Teck Resources (+15%) lagged the sector, detracting value. Nutrien declined due to overall weakness in the potash market as Belarus Potash negotiated a contract with China for the supply of potash at \$220/tonne. Although the price is at the lower end of price expectations, it may help to form a bottom on pricing. Teck has taken measures to reduce the risk of employees falling ill due to COVID-19, with one operation being directly affected by infection to date (Antamina). The company expects to continue to operate with reduced staff across the organization, but at levels that are generally fairly close to capacity. With low debt and competitive operating facilities (operating at low ends of their respective cost curve), we believe that Teck offers substantial upside when the economy starts to normalize.

In Financials, our sector overweight (driven based on substantial bottom-up value opportunities in this area) detracted value as the sector underperformed the market by 9%.

Our Information Technology sector underweight (outperformed by ~18%) detracted value as we continue to hold no positions given the expensive valuations that persist in the sector. We still view Shopify (+50%) as extremely expensive as it trades at 7800X consensus 2020 estimates and is still

### Investment Team

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**Ratul Kapur, CFA**  
Vice President & Portfolio  
Manager, Scheer Rowlett &  
Associates - Sub-Advisor

not expected to see GAAP profitability until 2024. (Note that the company reported operating losses of \$124 mln for the trailing 12 months, but sell side analysts add back the \$173 mln the company expensed in stock compensation.)

With economic data and earnings releases showing dramatic declines, discussion has now turned to trying to understand what the shape of the recovery could be - the symbols discussed include a "V", a "W", a "U" or even an "L"? We don't know what the shape of the recovery will be, but what we do know is that markets will be irrational over the next while as the virus pandemic eases, the policy (monetary and fiscal) responses start to take hold, and some view of the future starts to take shape. In the long term, however, we know that markets will recover and as value investors with over 25 years of investing behind us, our experience serves us well as we navigate such markets by being steadfast, disciplined and balanced in our investment approach of investing in a well-diversified value portfolio.

NINEPOINT CONCENTRATED CANADIAN EQUITY FUND - COMPOUNDED RETURNS<sup>1</sup>  
AS OF APRIL 30, 2020 (SERIES F NPP152)

	1M	YTD	3M	6M	1YR	INCEPTION
Fund	8.6%	-29.5%	-26.5%	-24.4%	-22.1%	-13.3%
Index	10.8%	-12.4%	-13.9%	-8.8%	-7.9%	1.6%

<sup>1</sup> 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 April 30, 2020; e) since inception (March 29, 2018). The index is 100% S&P/TSX composite Index and is computed by Ninepoint Partners LP based on publicly available index information.

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Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services:  
Toll Free: 1.877.358.0540