Ninepoint International Small Cap Fund Market View

April 9, 2020

Dear Clients and Colleagues:

The first quarter of 2020 may go down in history as one of the most challenging periods we have faced as a society. We are grappling with the growing threat of COVID-19 and increasingly stringent physical distancing measures. Millions of people around the world have lost their jobs, while others struggle to work remotely, and in many cases also homeschool their children. In the midst of all this, global equity markets have lost $27 trillion of value, which is close to the combined GDP of China and Europe.

Investment Team

Robert Beauregard, CFA, CMA, CPA
Chief Investment Officer & Portfolio Manager, Global Alpha Capital Management - Sub-Advisor

Qing Ji, ME, MBA, CFA
Portfolio Manager, Global Alpha Capital Management - Sub-Advisor

We have entered uncharted territory

The global economy has never experienced such an abrupt and devastating halt as this. With billions of people staying home to comply ith physical distancing directives, grave economic casualties have occurred, despite the waves of liquidity created by central banks and overnment programs. Unfortunately, many smaller businesses may never recover, like your favourite independent coffee shop, hairdresser or local gym. Even large international corporations will not be immune to the economic fallout. Going into this crisis, many businesses were already highly levered, making them particularly vulnerable in the current environment. On the other hand, companies with strong balance sheets will not only survive, they will gain market share as their weaker rivals fall.

Looking to the second quarter, strategists and market pundits are trying to predict the "shape" of the recovery using letters like L, U, V, and W. The upcoming earnings season will provide an early read on the situation, but the lack of overall visibility will lead to companies suspending their guidance. This will create a ripple effect of analysts downgrading future expected growth.

Is there a canary in the coal mine?

It is very difficult to predict black swans and all too easy to look back and identify telltale signs of trouble. However, if we apply the mosaic theory, we can identify some threats that may be brewing. For example, the private equity and venture capital world has benefitted from low interest rates and extremely high leverage while paying unrealistically high multiples for many businesses.

One does not have to look far to see evidence of this negative trend in action; take Softbank's Vision Fund. It is known for splashy tactics, paying excessive valuations for companies and creating unicorns. Softbank is just one of the many private equity firms engaging in risky bubble-creating behaviours.

WeWork is the crown jewel of Softbanks Vision Fund; however, last week Softbank walked away from a $3 billion share purchase of WeWork. This is significant as Softbank owns almost a third of

WeWork. According to the last available public data, WeWork has $18 billion in long-term lease obligations and $1.3 billion in net debt. The company lost $2.2 billion in the first nine months of 2019. It is hard to see how WeWork can survive over the next few months as it bleeds cash, is unable to generate new business due to COVID-19 and may have to file for bankruptcy.

The unravelling of WeWork will cause a ripple effect through the various banks connected with the SoftBank Vision Fund, which is highly levered. The impact will also be felt by the parent company, SoftBank Group, given the many layers of funding and loan guarantees built into the model. SoftBank owns shares of the Softbank Vision Fund, accounting for a third of investments; WeWork and Uber are the two largest SoftBank Vision Fund investments. Despite the numerous contingent liabilities, SoftBank Group's debt is rated as "A-" by JCRA versus Moody's "Ba3" rating. Haven't we seen this movie before?

What about other unicorns?

Global physical distancing measures have also impacted other unicorns, like ridesharing companies Uber and Lyft that saw demand for their services evaporate overnight. Even dog-walking startups, such as Rover and Wag, are feeling the pinch as people are now working from home and have time to walk their dogs themselves. Meanwhile, the global tourism market has almost disappeared, bringing one of its biggest disruptors, Airbnb, to its knees.

Not all startups are created equal

Amid the chaos, there are some winners in the startup space. Delivery startups like Instacart, DoorDash and Postmates are benefitting from the current situation, and demand for their services is rising. However, risks are high, and many of these companies are being criticized for their lack of worker protection. After all, every trip to the outside world, from grocery shopping to ordering takeout, increases risk to both the worker and consumer.

Back to Global Alpha

Over the last few weeks, we have written a few pieces on how our portfolio is well positioned to navigate the current volatile environment. Here's a synopsis of the activities at Global Alpha over the last few weeks.

During normal times, we travel extensively as we strongly believe in our on-the-ground-approach to research and market analysis. When the team is travelling, we rely heavily on email and teleconferencing to stay connected and up to date. Our ability to work remotely in an effective manner has been well tested and proven since the inception of the firm. While other companies are struggling with inadequate infrastructure and protocols for working remotely, Global Alpha is ahead of the curve.

In recent weeks we have spoken to almost all our holdings. We have had in-depth conversations on several key issues, including steps taken to protect employees, business interruption policies and cash flow management. Given that our portfolio holdings have either no debt or very little debt, they are extremely well-positioned to weather this storm and come out stronger on the other side. For example, one of our largest holdings, IWG (the world's largest provider of workspace solutions), is poised to benefit greatly from the WeWork fiasco.

As part of our strong Environmental, Social and Governance (ESG) principles we have also suggested to our portfolio companies that their executives take a pay cut, which we believe would send a positive signal to employees and investors. Many of our holdings have already announced measures to reduce compensation across the various executive layers.

Global Alpha has also taken advantage of current market volatility to add some great businesses to our portfolios; business that are trading at large discounts to their intrinsic value. We will continue to keep you posted via future commentaries. We thank you for your support and confidence in the Global Alpha process, team and risk management.

Be safe and healthy and enjoy your lweek.

The Global Alpha Team

MONTHLY RETURNS (%) AS AT MARCH 31, 2020, SERIES F

	1M	YTD	3M	6M	1YR	INCEPTION
Fund	-13.8%	-22.5%	-22.5%	-14.2%	-14.4%	-7.9%
Index	-12.3%	-20.4%	-20.4%	-13.1%	-12.8%	-9.5%

[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 March 31, 2020; e) since inception (March 15, 2018). The index is 100% MSCI EAFE Small Cap NR USD (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

Ninepoint Partners LP is the investment manager to a number of funds (collectively, the “Funds”). Commissions, trailing commissions, management fees, performance fees (if any), and other expenses all may be associated with investing in the Funds. Please read the prospectus carefully before investing. The indicated rates of return for Series F of the Funds for the period ended March 31, 2020 are based on the historical annual compounded total returns including changes in [unit/share] value and reinvestment of all distributions or dividends and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This communication does not constitute an offer to sell or solicitation to purchase securities of the Funds.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: ADR risk; Concentration risk; Credit risk; Currency risk; Cybersecurity risk; Emerging markets risk; Foreign investment risk; Inflation risk; Liquidity risk; Market risk; Regulatory risk; Securities lending, repurchase and reverse repurchase transactions risk; Series risk; Small company risk; Specific issuer risk; Sub-adviser risk; Tax risk.

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 Funds may be lawfully sold in their jurisdiction.

The opinions, estimates and projections (“information”) contained within this report are solely those of Ninepoint Partners LP (“Ninepiont”) and are subject to change without notice. Ninepoint makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint 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. 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 is or will be invested.

Ninepoint 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 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 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