Ninepoint Focused Global Dividend Fund

August 2023 Commentary

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Summary

- Ninepoint Focused Global Dividend Fund had a YTD return of 9.84% as of August 31, trailing the S&P Global 1200 Index, which had a YTD return of 15.72%.
- In August, the Fund generated a total return of 1.41% while the Index generated a total return of 0.28%.
- Despite a strong final week, the month of August was a mildly disappointing one for investors.
- The primary culprit blamed for the weakness in equities was the sharp move in rates from 4.00% to 4.34% (reaching a 10-year high), which is generally correlated to P/E multiple compression, influenced by factors like the Bank of Japan's monetary policy shift, US sovereign debt downgrades, and rising inflation concerns.
- Q2 2023 earnings season for S&P 500 companies performed better than expected, with a 4.1% YoY earnings decline, potentially marking the earnings trough for the cycle.
- The fund was concentrated in 28 positions. Over the prior fiscal year, 20 out of our 28 holdings have announced a dividend increase, with an average hike of 8.4% (median hike of 7.7%).

Monthly Update

Year-to-date to August 31, the Ninepoint Focused Global Dividend Fund generated a total return of 9.84% compared to the S&P Global 1200 Index, which generated a total return of 15.72%. For the month, the Fund generated a total return of 1.41% while the Index generated a total return of 0.28%.

Ninepoint Focused Global Dividend Fund - Compounded Returns[1] As of August 31, 2023 (Series F NPP964) | Inception Date: November 25, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	Inception
Fund	1.4%	9.8%	5.3%	9.6%	13.3%	6.2%	6.3%	7.2%
S&P Global 1200 TR (CAD)	0.3%	15.7%	6.2%	10.6%	19.9%	10.3%	9.6%	10.3%

Despite a strong final week, the month of August was a mildly disappointing one for investors. Although the S&P 500 declined 1.8%, the intra month peak to trough drawdown was approximately 5.5%, which was really nothing more than a typical correction considering the year-to-date rally in tech stocks. During the month, the Energy sector was the standout performer but weakness in the Consumer Discretionary, Utilities and Financials sectors dragged the index lower. The primary culprit blamed for the weakness in equities was the sharp move in rates from 4.00% to 4.34% (reaching a 10-year high), which is generally correlated to P/E multiple compression.

But why did rates move so sharply? At the very end of July, the announcement from the Bank of Japan shifting monetary policy away from strict yield curve control likely started the trend higher around the world. The Fitch Ratings downgrade of US sovereign debt from AAA to AA+ (justified with the statement: “The rating downgrade of the United States reflects the expected fiscal deterioration over the next three years, a high and growing general government debt burden, and the erosion of governance relative to ‘AA’ and ‘AAA’ rated peers over the last two decades that has manifested in repeated debt limit standoffs and last-minute resolutions.”) was not great news. The Moody’s credit downgrade of ten US-based small and mid-sized banks (with at least six others

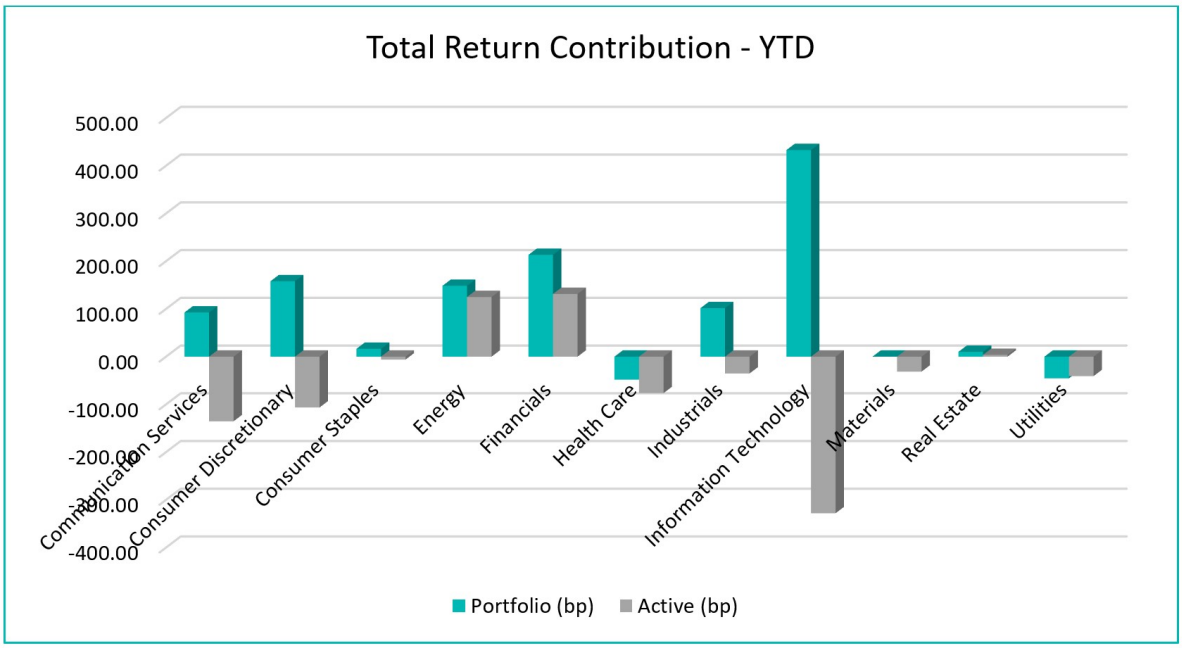
placed on negative watch) also wasn't helpful. Further, monthly CPI data for July (released on August 10th) was unchanged from June at +0.2% but ticked up on an annualized basis to 3.2% in July, slightly more than the 3.0% recorded in June. Fed speakers continued to talk tough on inflation and Chairman Powell's speech at the Jackson Hole Economic Symposium was almost a carbon copy of his most recent FOMC presser. A lot of noise but thankfully nothing to suggest that a deep recession, characterized by plunging corporate profits and spiraling unemployment is imminent.

In fact, the Q2 2023 earnings season has essentially come to close (with over 99% of the S&P having reported results) and was much better than originally feared. Initial expectations were for a decline of somewhere between 8% and 9%, but 79% of S&P 500 companies reported a positive EPS surprise and 64% of S&P 500 companies reported a positive revenue surprise (according to FactSet). For Q2, the blended year-over-year earnings decline for the S&P 500 was 4.1%, the third straight quarter of negative earnings growth but likely the bottom for the cycle. If the Q2 proves to be the earnings trough (consistent with current consensus estimates), we could see a more diversified group of stocks play "catch-up" even if the headline indexes move sideways or drift lower, as earnings growth reaccelerates. In this environment, we are searching for companies that have been able to post solid earnings growth but still trade at acceptable valuations. Dividend growth companies and real asset strategies look poised to benefit from any rotation out of the high-multiple, technology winners of 2023.

In an environment of moderating inflation but slowing growth through 2023 and into 2024, the most important drivers of investment performance will likely be valuation, balance sheet strength and the ability to consistently generate cash flow and earnings. Should the year-to-date rally broaden beyond anything tied to the artificial intelligence investment theme, a rotation into high quality, dividend growers would result in better relative performance from our strategies going forward. 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.

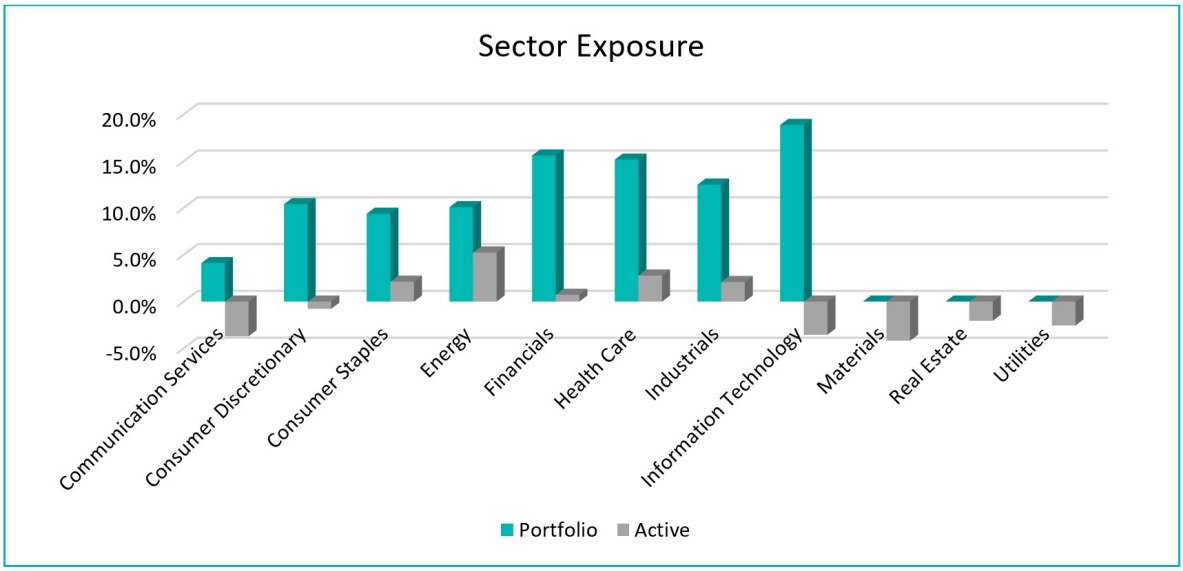
Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Fund by sector included Information Technology (+433 bps), Financials (+213 bps) and Consumer Discretionary (+158 bps) while top detractors by sector included Health Care (-48 bps) and Utilities (-45 bps) on an absolute basis.

On a relative basis, positive return contributions from the Financials (+131 bps), Energy (+125 bps) and Real Estate (+4 bps) sectors were offset by negative contributions from the Information Technology (-328 bps), Communication (-135 bps) and Consumer Discretionary (-106 bps) sectors.



Source: Ninepoint Partners

We are currently overweight the Energy, Health Care and Consumer Staples sectors, while underweight the Materials, Communication and Information Technology sectors. With the probability of a future interest rate hike below 50% for each of the three remaining FOMC meetings in 2023 according to Refinitiv, interest rate hikes are likely done for the cycle. While we are cognizant of the lagged impact of 525 basis points of monetary tightening since March 2022 and aware of the potential for seasonal weakness in September/October, we are comfortable with our portfolio positioning today. We remain focused on high quality, dividend payers that have demonstrated the ability to consistently generate revenue and earnings growth through the cycle.



Source: Ninepoint Partners

The Ninepoint Focused Global Dividend Fund was concentrated in 28 positions as at August 31, 2023 with the top 10 holdings accounting for approximately 40.7% of the fund. Over the prior fiscal year, 20 out of our 28 holdings have announced a dividend increase, with an average hike of 8.4% (median hike of 7.7%). We will continue to apply a disciplined investment process, balancing various quality and valuation metrics, in an effort to generate solid risk-adjusted returns.

Jeffery Sayer, CFA

[1] All returns and fund details are a) based on Series F shares; b) net of fees; c) annualized if period is greater than one year; d) as at August 31, 2023; e) 2015 annual returns are from 11/25/15 to 12/31/15. The index is S&P GLOBAL 1200 TR (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

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