# Ninepoint Concentrated Canadian Equity Fund

## February 2020 Commentary

Investment Team

The outbreak of the Covid19 virus rattled equity markets as slower global growth concerns weighed on stocks - over 6 days global equity markets lost US$6 trillion. In such a market the general reaction is to sell as no one really knows how deep or how long the slow down will last. Good companies however, with the appropriate levels of debt, will recover once the crisis is better understood or passes. Not panicking should prove to be profitable. With the month end sell-off, the S&P/TSX fell 5.9% with all sectors in the "red". Healthcare (-17%), Materials (-8%) and Consumer Discretionary (-7%) led the decline while Information Technology (-3%), Utilities (-3%) and Real Estate (-3%) fell less than the market.

Despite security selection gains in Financials and Industrials along with sector underweight gains from no positions in Healthcare (cannabis stocks remain unattractive), security selection losses in Energy, Materials and Consumer Discretionary caused our portfolio to detract value in the month.

In Financials, our position in Element Fleet Management (-1%) and no positions in either Bank of Montreal (-10%) nor Manulife (-11%) contributed. Element Fleet reported strong Q4 results in its core business and took a $194mln charge on the 19th Capital JV, finally putting a problematic investment behind it.
Excellent execution on their cost cutting plan provides visibility for operating leverage driven earnings and free cash flow growth through 2020 - we remain overweight the name. Bank of Montreal, along with all the banks, reported Q1 results. While generally the results were strong, Bank of Montreal (do not own) declined as they announced flat ROE's (at 13.5%) and higher credit provisions losses in their business banking loan book. Manulife was weak on concerns that the virus in Asia will impact their business. We continue to prefer CIBC, TD, Bank of Nova Scotia and Royal Bank.

In the Industrials, Transcontinental (+4%) outperformed as they reported Q1 results. Their packaging operations announced improved margins and they expect ongoing improvements throughout 2020 (synergy and efficiency gains). They used the proceeds of the sale of paper packaging business to reduce debt. We continue to find Transcontinental attractive at these levels.

The Healthcare sector underperformed the market by ~10% (adding value) as the cannabis companies continued to face challenges. We are avoiding these companies, along with the rest of the Healthcare sector, given the extreme valuations.

In Energy, Ovintiv Inc. (-25%), Crescent Point Energy (-16%) and Cenovus Energy (-14%) all underperformed. While all three companies fell on the back of declines in oil prices (WTI -13% to US$44.76/bbl), Ovintiv (old Encana) was particularly weak. Despite Ovintiv announcing results mid-month with better postacquisition cost savings, higher free cash flow (reduced debt), and an in line 2020 budget, there is continued selling by investors given their change of domicile to the U.S. Assuming a normalized oil price of $60, all three companies are discounted based on their cash

netbacks and free cash flow generation and trade at under 4X forward cash flow per share for Cenovus and 1X forward cash flow per share for Crescent Point and Ovintiv.

In Materials, Teck Resources (-21%) and Hudbay Minerals (-19%) underperformed. Both companies were weak due to the underlying weakness in commodity prices plus concerns about a broad economic slowdown caused by the ongoing Covid19 virus. We remain of the view that both stocks are very attractive as each company operates at the lower end of their respective industry cost curves and the valuations appear inexpensive.

In Consumer Discretionary Linamar (-15%) declined on concerns of an economic slowdown as a result of the Covid19 virus. While the supply-chain impact from Covid19 on auto sales remains unknown, Linamar is trading at price-to-book valuation levels comparable to 2008-2009 levels and we remain comfortable with our overweight position.

Looking back to the 1930's at performance during past market shocks for the S&P500, if an investor was out of the market for the best 10 days in each decade, their returns would have been a mere 91% versus 14,962% overall. While painful, all 10+% corrections have occurred, on average, once per year since 1930.

Thus our rationale for not trying to time markets. Instead, we focus on our fundamental bottom-up analysis of earnings, cash flow and book value, investing in companies that trade at a discount to their intrinsic worth (knowing that market fundamentals will reassert themselves at some point). No one knows where this is going to end, but we do know that it will end at some point and we are well positioned in companies that will benefit from an inevitable recovery.

With Regards,

Ratul Kapur

**Vice President & Portfolio Manager**
**Scheer, Rowlett & Associates Investment Management Ltd**

[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, 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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