



Ninepoint International Small Cap Fund Market View

February 14, 2020

Dear Clients and Colleagues:

Packaging is prevalent in our daily lives; the average consumer in the western world handles more than 50 packaged items every day. However, there is a growing awareness of the detriments of nonrecyclable packaging to the environment. This is why there is now an increased focus on sustainable packaging.

Sustainable packaging means different things to different people. To many, it means being recyclable, compostable, or biodegradable. To others, it also means being efficient with the use of materials. Whether it's recyclable or biodegradable, if more resources or materials are used than needed, it may not be considered as sustainable. There is no universal definition for sustainable packaging, but it generally means the packaging is safe, reduces environmental impact and ecological footprint, and is cost effective.

Of the most commonly used packaging materials, plastic received a lot of criticism from the press and consumers. Many are eager to find alternative packaging solutions to plastics. Glass and aluminum are often brought into this discussion, considering their significantly higher recycling rate, but it comes at a cost. The raw material cost of aluminum can be 25-30% higher than a polyethylene terephthalate (PET) bottle with similar volume, and the production of each can creates about twice as much carbon. For glasses, the obvious disadvantages are that they are heavy and fragile. It requires significantly more energy to transport them and shippers can't pack glass containers into a truck as tightly as aluminum or plastic containers.

There are many forms of sustainable packaging, including reused or recyclable plastics. Plastics are commonly used in the packaging industry because they are light, cheap, flexible and durable. It's hard to imagine how our lives will be without using any plastic products. As Véronique Cremades, head of sustainable packaging at Nestlé put it, "there is good plastic and bad plastic, and making packaging more recyclable is just as important as moving to new materials".*

To make packaging more sustainable, innovation is needed. Most toothpaste tubes, for example, are unrecyclable because they are made from sheets of plastic laminate and a layer of aluminum pressed together in a film. Almost all of the 20 billion tubes we use annually will end up in landfills or incinerated. Colgate-Palmolive, the world's biggest toothpaste maker, has developed a recyclable tube, made of high-density polyethylene (HDPE) which is a recyclable plastic that Colgate's engineers were able to make less rigid. Further, they are willing to share this intellectual property with their competitors. Biffa Polymers, a leading integrated waste management company in the United Kingdom (UK) that we hold in our portfolios, was the first in the world to commercially

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produce food-grade recycled high density polyethylene (rHDPE) plastic pellet from recycled plastic milk bottles. This pellet is used as recycled content in manufacturing new plastic milk bottles, plastic food trays for supermarkets, cosmetics containers, and also for non-food items such as paint trays and plant pots. They offer recycled plastic materials at competitive rates, including compound plastics, rHDPE and regrind plastics.

While the recycling rate of bottles might be improving globally, the recycling rate of the labels attached to those bottles remains low. Labels cannot be recycled together with the bottles. A heating process is needed to remove the labels and adhesives for recycling purpose. Fuji Seal, a leading flexible packaging company based in Japan, has solutions for that. Their main products are shrink sleeve labels and self-adhesive labels. They have the technology to use removable ink on the labels; therefore the ink will come off in water, so the labels can be recycled together with the bottle, making the process more efficient and reducing waste.

There are many other examples of how companies we hold make the packaging industry more sustainable, including TOMRA, a Norwegian company we discussed in a previous commentary on December 14, 2018. TOMRA is the world's leading manufacturer of reverse vending machines that collect containers for recycling.

Regulations have been tightening globally towards the use of single-use plastics. Approximately 127 countries have already placed limits on plastic bags, and the European Union (EU) will ban items such as cutlery, plates and straws by 2021. Companies are also taking steps; under the New Plastics Economy Global Commitment, led by the Ellen MacArthur Foundation, 123 consumer packaged goods, retail, and packaging producing signatories have committed to making 100% of their plastic packaging reusable, recyclable, or compostable by 2025.

Environment has been a key investment theme for Global Alpha and we will continue to identify high quality companies that are committed to sustainable environmental practices.

Have a great week ahead.

The Global Alpha team

*<https://www.ft.com/content/27cf9734-faa7-11e9-98fd-4d6c20050229>

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

	1M	YTD	3M	6M	1YR	INCEPTION
Fund	-1.6	-1.6	3.9	7.9	13.7	4.0
Index	-0.9	-0.9	4.2	9.4	13.0	1.1

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 January 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.

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