Ninepoint Focused Global Dividend Class

February 2021 Commentary

Year-to-date to February 28th, the Ninepoint Focused Global Dividend Class generated a total return of 0.15% compared to the S&P Global 1200 Index, which generated a total return of 1.13%. For the month, the Fund generated a total return of 1.71% while the Index generated a total return of 1.65%.

Investment Team

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The three main catalysts that we have highlighted in the past (the resolution of the US Presidential Election, the approval of additional fiscal stimulus and the rollout of Covid-19 vaccines) have combined to power a noteworthy sector rotation in early-2021. Across the broad equity markets, growth/momentum plays are clearly lagging value/cyclical plays, suggesting that the mega-cap technology stocks are being used as a source of funds for investments in the energy, financials and industrials sectors. In the infrastructure space, we have seen the bond proxies, such as the regulated utilities, being used as a source of funds for allocations to the energy and industrials sectors. In the real estate space, we have seen the steady performers from 2020, such as the specialized REITs and industrial REITs, being used as a source of funds for investments in the retail REITs, office REITs and hotels & resorts REITs sub-industries.

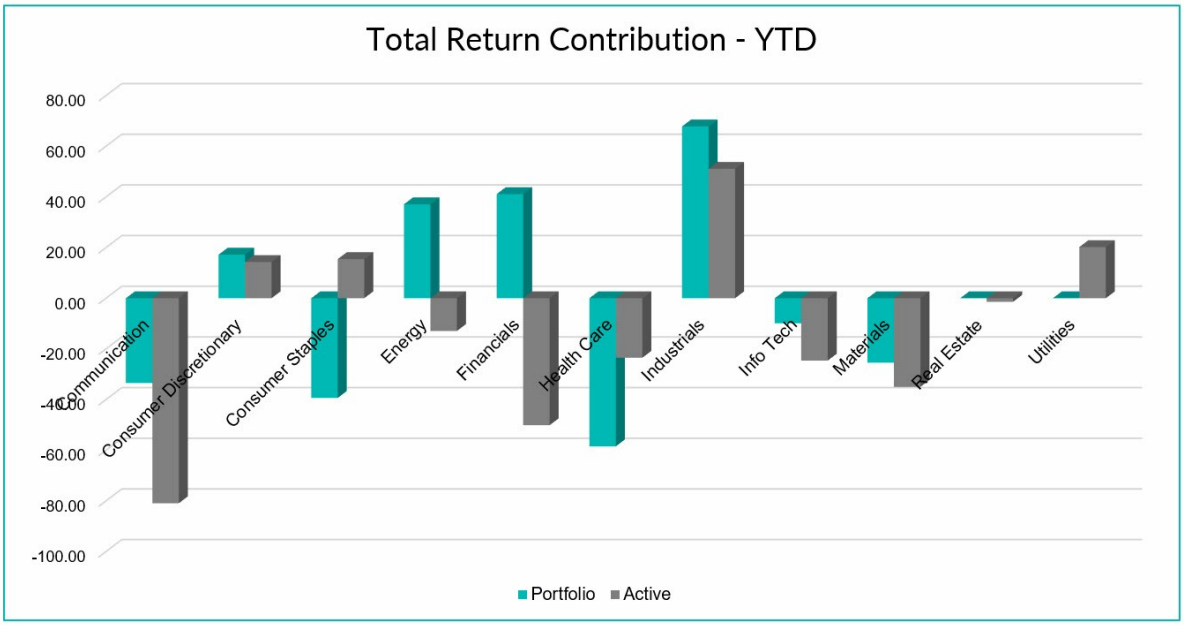
Although investors like to gravitate towards easy narratives, it is tough to find a clear explanation for the acceleration in the reopening trade during the month of February. Growth and inflation expectations have been picking up for some time now but leadership changes in the market can occur suddenly and violently due to investor positioning. Looking back, it is interesting that the certification of the US Presidential election on January 6/7 by Congress coincided with the 10-year US Treasury bond yield moving back above 1.00% (a key psychological level) for the first time since the beginning of the Covid-19 pandemic. But it was not until February, when the yield on the 10-year spiked more than 50 basis points to reach a high of 1.61%, that the move really caught investor's attention. Reflation beneficiaries ripped higher while long-duration assets and the more-speculative areas of the market, including high-multiple growth stocks, SPACs and even early-stage clean power technology names were hit hard.

Despite the potential for some outsized moves as market participants cope with the interest rate reset, we continue to expect a broad equity rally as the world reopens through 2021 and pent-up consumer spending is unleashed. In the meantime, we are very comfortable relying on our investment process, which suggests a diversified barbell-strategy to optimize the tradeoff between risk and return over the next twelve months. But we understand that if higher rates translate into at least some degree of P/E compression, it will be crucial to pay the right price for earnings and dividend growth as GDP accelerates from the Covid-19 pandemic induced recession.

Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Class by sector included Industrials (+68 bps), Financials (+41 bps) and Energy (+37 bps) while top detractors by sector included Health Care (-58 bps), Consumer Staples (-39 bps) and Communication (-33 bps)

on an absolute basis.

On a relative basis, positive return contributions from the Industrials, Utilities and Consumer Staples sectors were offset by negative contributions from the Communication, Financials and Materials sectors.



Source: Ninepoint Partners

We are currently slightly overweight the Consumer Discretionary and Energy sectors, while slightly underweight the Utilities and Real Estate sectors. As we have said before, given our expectations for the rally to broaden through 2021 as the world reopens, we have a relatively neutral positioning from a sector perspective. As the vaccine rollout continues to accelerate, we may finally see both growth/momentum stocks and value/cyclical stocks participating in the recovery rally and we are positioned accordingly.

Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Magna International (+65 bps), Johnson Controls International (+60 bps) and Ally Financial (+53 bps). Top detractors year-to-date included Apple (-42 bps), T Mobile (-38 bps) and Walmart (-31 bps).

In February, our top performing investments included Magna (+67 bps), Suncor (+53 bps) and Synchrony Financial (+43 bps) while Apple (-41 bps), Thermo Fisher (-39 bps) and Hologic (-34 bps) underperformed.

The Ninepoint Focused Global Dividend Class was concentrated in 30 positions as at February 28th, 2021 with the top 10 holdings accounting for approximately 37.8% of the fund. Over the prior fiscal year, 20 out of our 30 holdings have announced a dividend increase, with an average hike of 2.8% (median hike of 6.1%). We will continue to apply a disciplined investment process, balancing various quality and valuation metrics, in an effort to generate solid risk-adjusted returns.

Jeffrey Sayer, CFA
Ninepoint Partners

[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 February 28, 2021; 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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