Ninepoint Focused Global Dividend Fund

February 2022 Commentary

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Vice President, Portfolio Manager

Year-to-date to February 28, the Ninepoint Focused Global Dividend Fund generated a total return of -6.64% compared to the S&P Global 1200 Index, which generated a total return of -6.79%. For the month, the Fund generated a total return of -2.23% while the Index generated a total return of -2.93%.

With Omicron in the rear-view mirror from a market perspective, investor attention has shifted to the terrible events in the Ukraine. Fear, uncertainty and doubt are now oscillating rapidly between the developments in Europe and the impending cycle of interest rate hikes required to tame inflation. Essentially, we have been caught in a global growth scare, which has traditionally resulted in a 10% to 20% drawdown in equities. Given this challenging backdrop, it is helpful to look at similar periods in history to try to figure out the most probable path forward for the equity markets.

The annexation of Crimea in February 2014 is likely the most similar period in recent history to the ongoing invasion of the Ukraine, which triggered a 5% drawdown for the S&P 500. However, by the time Russian forces completely seized control, the market had recouped all these losses. It was a case of "buy-the-invasion" since the conflict remained relatively contained. Scenes from the Ukraine are admittedly more horrific today but, if NATO is not dragged into the war, investor sentiment probably can't get any worse.

Turning to the interest rate cycle, monetary tightening from December 2015 to December 2018 is likely the most similar period to today's environment. Although the pace of interest rate hikes will be more rapid in 2022 (the market is currently expecting five hikes through the year), it is useful to look at the market's performance in 2016 to understand the reaction to the initial hikes. Essentially, equities experienced a broad 10% drawdown across most sectors but began to rebound after bottoming in late February 2016 and continued to rally through the tightening cycle for the next couple of years.

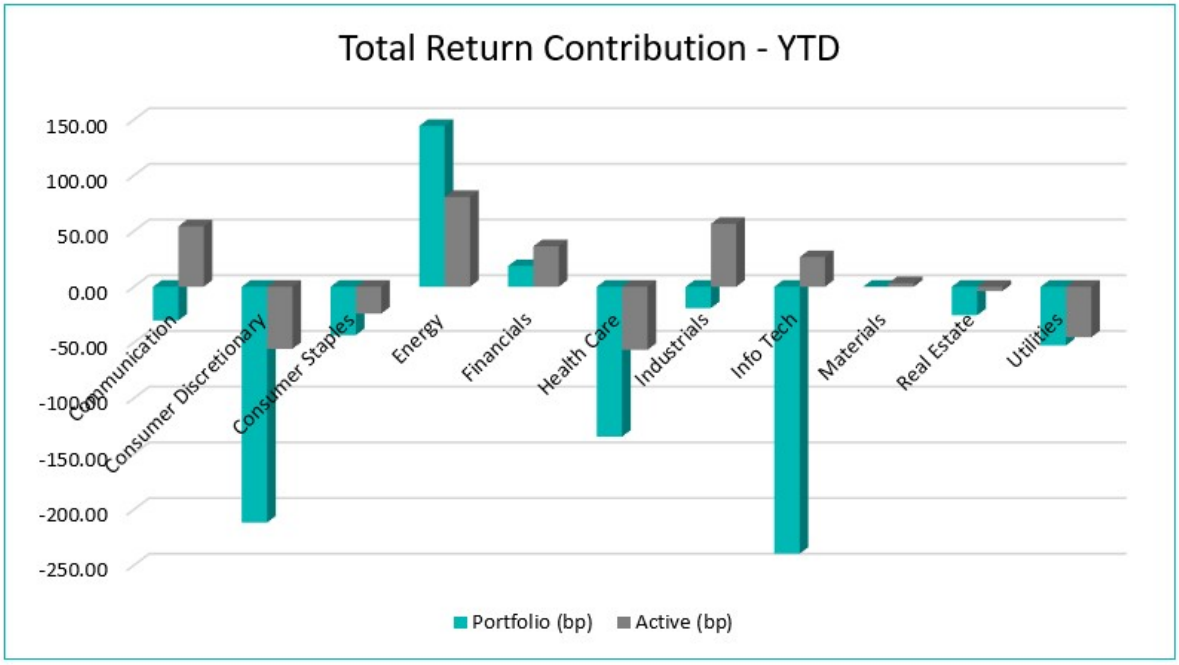
Putting it all together, a 5% drawdown related to the Ukraine-Russia conflict and a 10% drawdown related to the interest rate cycle would put the S&P 500 at approximately 4080, which coincides with just under 18x forward earnings (almost exactly back to the valuation levels prior to the Covid-19 pandemic). Although the market touched 4114 on February 24, it is impossible to know if the final low has been put in place but as we get through the March 10th US CPI print and the March 16th FOMC meeting, any signs of stability in Europe could trigger a relief rally. Further, if inflation finally begins to moderate and the pace of interest rate hikes slows relative to market expectations, prior cycles have shown that the equity markets can rally through a period of rising interest rates. It is only when the yield curve inverts, and the Fed ends the tightening cycle that we need to prepare for a more significant downturn.

So, although investors should expect choppier performance throughout the year, especially leading up to and coming out of the initial interest rate hike, with long-term interest rates still below 2.0%

and consensus earnings growth of 8.5% in 2022 (according to FactSet), this should be another year of positive returns for the broad equity markets, irrespective of the difficult start. In keeping with our mandates, we are concentrating our fundamental analysis on high quality, dividend growth companies and real asset investments, including real estate and infrastructure, given the attractive risk/reward outlook over the next two to three years from recent price levels.

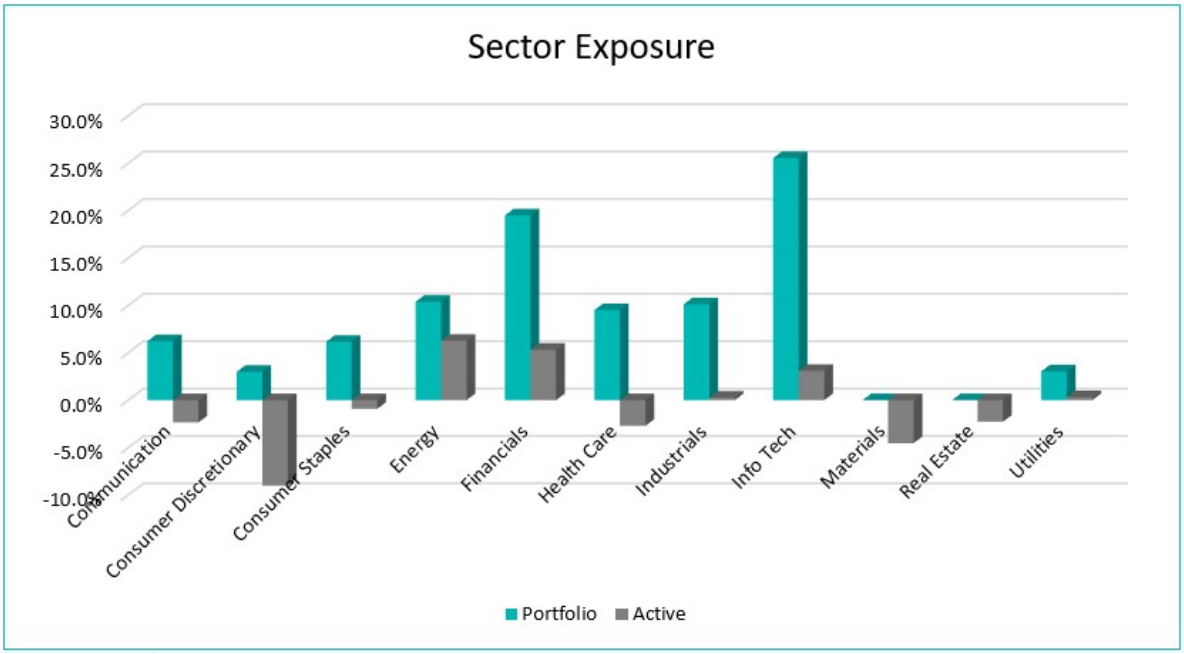
Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Fund by sector included Energy (+144 bps) and Financials (+24 bps) while top detractors by sector included Information Technology (-240 bps), Consumer Discretionary (-212 bps) and Health Care (-135 bps) on an absolute basis.

On a relative basis, positive return contributions from the Energy (+72 bps), Industrials (+54 bps) and Communication (+56 bps) sectors were offset by negative contributions from the Health Care (-46 bps), Consumer Discretionary (-60 bps) and Utilities (-43 bps) sectors.



Source: Ninepoint Partners

We are currently overweight the Energy, Financials and Information Technology sectors, while underweight the Consumer Discretionary, Materials and Health Care sectors. Through the beginning of the year, we have been positioning the portfolio toward a barbell strategy, emphasizing high quality, secular growers and cheap cyclicals. Further, we have narrowed our focus to businesses with at least a five-year track record of dividend growth or a significant share buyback program, both important mechanisms of returning excess cash flow to shareholders.



Source: Ninepoint Partners

The Ninepoint Focused Global Dividend Fund was concentrated in 28 positions as at February 28, 2022 with the top 10 holdings accounting for approximately 37.9% of the fund. Over the prior fiscal year, 19 out of our 28 holdings have announced a dividend increase, with an average hike of 15.2% (median hike of 6.7%). 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
Ninepoint Partners

NINEPOINT FOCUSED GLOBAL DIVIDEND FUND - COMPOUNDED RETURNS[1] AS OF JANUARY 31, 2024 (SERIES F NPP964) | INCEPTION DATE: NOVEMBER 25, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	2.9%	2.9%	10.6%	8.7%	16.5%	8.4%	9.5%	7.7%
S&P Global 1200 TR (CAD)	2.3%	2.3%	11.1%	6.4%	16.3%	9.9%	12.0%	10.5%

[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, 2022; 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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