Ninepoint Concentrated Canadian Equity Fund

January 2019 Commentary

Investment Team

The S&P/TSX bounced back 8.7% in January following the decline in December as Healthcare (+43%, led by the cannabis stocks), Consumer Discretionary (+11%) and Energy (+11%) outperformed the market while Consumer Staples (+3%), Communication Services (+5%) and Utilities (+6%) lagged the market.

Our portfolio underperformed as losses from security selection in Energy and Consumer Discretionary as well as no Healthcare positions surpassed our gains from security selection in the Industrials plus no positions in both Consumer Staples and Communication Services.

In Industrials, WestJet (+12%) recovered post its year-end decline. WestJet continues to recover from margin compression in 2018. With fare increases, better capacity alignment and cost initiatives, the company's financial returns will improve – so we continue to believe that the stock (trading at book value and 10X forward 2020 consensus estimates) offers good upside potential.

Our zero weight position in Consumer Staples added value as the sector underperformed the market by ~5%. In addition, no positions in Communication Services added value as the sector underperformed by ~4%.

In Energy, Crescent Point Energy (-5%), as well as positions in Canadian Natural Resources (+7%) and Cenovus (+7%) (both of which underperformed the Energy sector's +11% return) detracted value. Crescent Point fell as they announced a 90% reduction in their dividend (10% to 1%) in order to focus their free cash flow on both debt reduction and share buybacks. After recently meeting with management, we continue to believe there is significant upside potential from this undervalued, light oil energy producer, along with our positions in Canadian Natural Resources and Cenovus.

In Consumer Discretionary, Uni Select Inc. (0%) underperformed the sector by ~11% as other companies benefitted from the renewed optimism. Uni Select remains an attractive position given the growth in their UK business, their plans to sell their U.S. business and the valuation multiples at which it trades (<12X forward & trailing earnings and at 1.1X book value per share).

The Healthcare sector outperformed the market by ~34%; our zero weight detracted relative value. After falling in Q4 2018, the cannabis stocks rallied. The four securities now comprise ~1.4% index weight and remain extremely volatile, and as a bottom-up value investor, we find the valuations extremely difficult to justify owning any position.

After a challenging end to 2018 (the worst December for the S&P500 since 1931!), markets seemed to disregard the worries and added one of the best months since 2008. Interesting to note is that between December 24th 2018 and January 25th 2019, the S&P/TSX recovered almost 100% of the losses incurred in all of 2018. Despite this move, the Canadian equity market remains cheaper than

the U.S. equity market (as represented by the S&P/TSX versus the S&P500), and our portfolio, based on our bottom-up value approach, is even more attractive, on a valuation basis. As investors who do not believe in trying to time markets, we continue to hold no positions, on valuation concerns, in some expensive areas of the market (healthcare, utilities, pipelines, REIT's, consumer staples, communication services). However, we are invested in a number of very attractively priced companies in financials (banks), energy, airlines and basic materials.

With Regards,

Robert Dionne

Vice President & Portfolio Manager
Scheer, Rowlett & Associates Invesment 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 January 31, 2019; 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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