Ninepoint Focused US Dividend Class

January 2019 Commentary

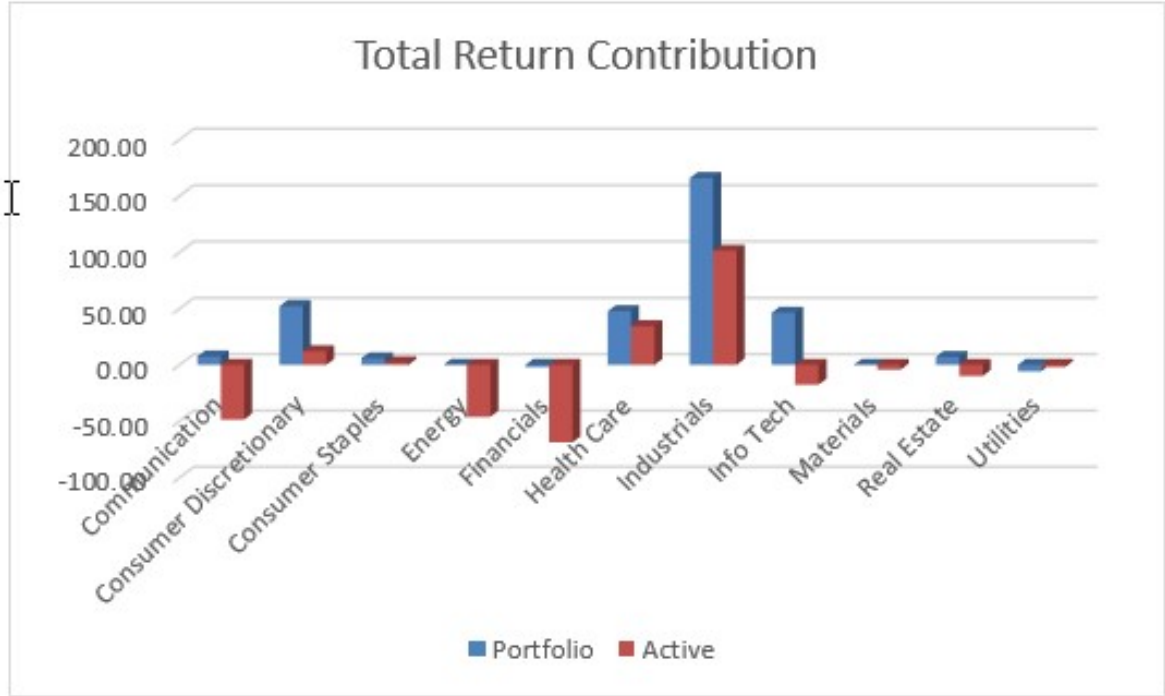
Year-to-date to January 31, the Ninepoint Focused US Dividend Class generated a total return of 4.76% compared to the S&P 500 Index, which generated a total return of 3.97%. After the worst stock market performance in December since 1931, markets rebounded sharply in January with the S&P 500 posting its best performance since 1987.

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

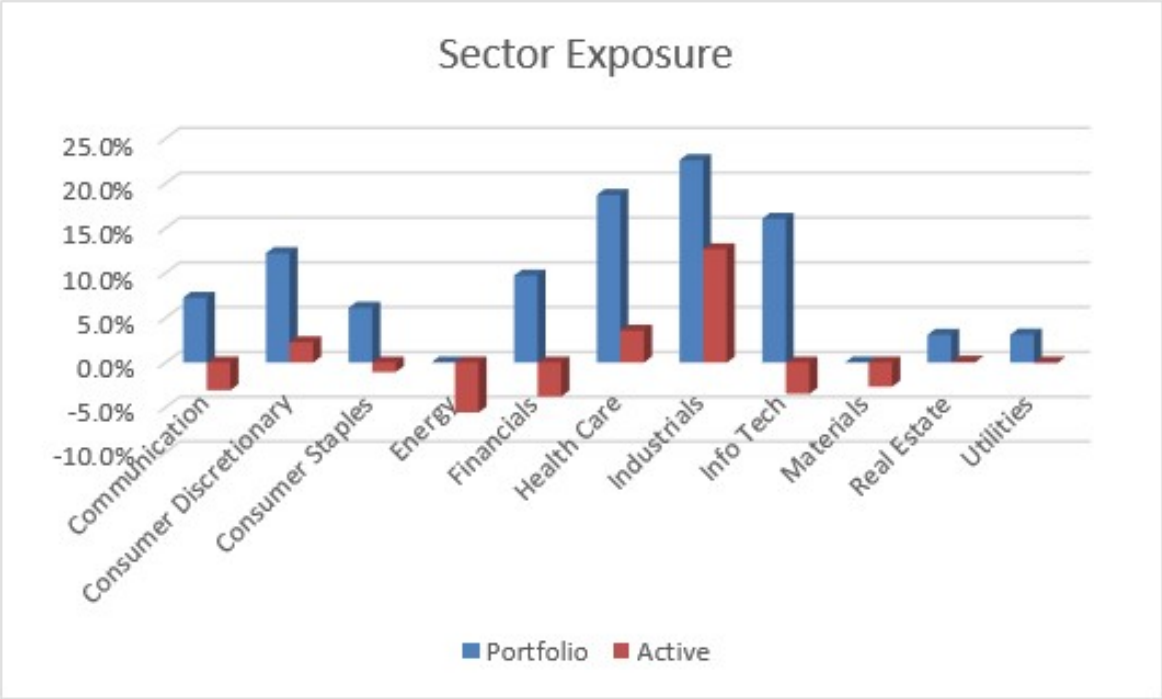
Essentially, the worst performing stocks and sectors in December reversed course to become the market leaders in January, which speaks to the sentiment/positioning-driven nature of the sell-off to end 2018. Two of the three key investor concerns are already showing signs of improvement in early 2019 with the FED pivoting to a very dovish, "patient" approach to future interest rate hikes and Trump appearing to soften his stance on China. Forward earnings estimates have continued to decline but commentary in the Q4 2018 earnings releases has not been pointing to any significant downward revisions from here. Hopefully, fundamentals will matter again in 2019 and we can get back to stock picking based on company specific analysis.

Top contributors to the year-to-date performance of the Ninepoint Focused US Dividend Class by sector included Industrials (+166 bps), Consumer Discretionary (+52 bps) and Health Care (+48 bps) while top detractors by sector included Utilities (-6 bps) and Financials (-2 bps).



Source: Ninepoint Partners

We are overweight the Industrials, Health Care and Consumer Discretionary sectors, while underweight the Energy, Financials and Communication Services sectors. We believe that one of the most important investment decisions that will have to be made in 2019 will be whether to pivot to "value" from "growth". A weakening USD, a rising WTI crude oil price, a rising 10-year US bond yield and a steepening yield curve will likely be required before value outperforms growth for any sustainable length of time. However, if we do see all those conditions met in 2019 we expect to boost our exposure to the Financials and Energy sectors. If not, we expect to maintain our quality/defensive positioning.



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Boeing (+66 bps), Mastercard (+42 bps) and Anthem (+38 bps). Top detractors year-to-date included Intercontinental Exchange (-23 bps), Boston Scientific (-22 bps) and Merck (-16 bps).

Boeing has been a phenomenal performer YTD, as fears of a China-led downturn in the aerospace cycle appear unfounded. With the release of the Company's Q4 and full year 2018 operating and financial results, management called for delivery of 900 planes in 2019 compared to 806 in 2018, implying revenue growth of 9.3%, EPS growth of 37.4% and operating cash flow of between $17.0 and $17.5 billion. Mastercard reported earnings on the final day of January, with 20% currency-neutral revenue growth and 41% currency neutral adjusted earnings per share growth for the full year 2018. The Company's 2019-2021 performance objectives call for continued impressive performance, with net revenue CAGR of "low-teens" and EPS CAGR of "high-teens". Anthem also reported blowout results in January, moved up the launch of its in-house pharmacy benefits management business and forecasted 2019 EPS of "greater than $19.00" (an increase of 20% from 2018) versus consensus expectations of $17.61, sending the shares up approximately 10% in a single day.

Intercontinental Exchange declined on the news that several major banks and financial institutions were planning to launch a new, lower-cost rival exchange. The two other largest detractors to the year-to-date performance of the Fund were stocks with more defensive characteristics that had worked well in 2018 and were likely used as a source of funds to chase the January 2019 rally.

The Ninepoint Focused US Dividend Class was concentrated in 28 positions as at January 31, 2019 with the top 10 holdings accounting for approximately 42.5% of the fund. Over the prior fiscal year, 21 out of our 28 holdings have announced a dividend increase, with an average hike of 9.8%. 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