Ninepoint Focused Global Dividend Class

January 2020 Commentary

Year-to-date to January 31, the Ninepoint Focused Global Dividend Class generated a total return of 2.09% compared to the S&P Global 1200 Index, which generated a total return of 1.10%. After a broad-based rally in 2019, the powerful rebound continued in January, although volatility did pick up in the back half of the month.

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

As we've discussed in prior commentaries, the equity markets have been flip-flopping back and forth between outperformance of momentum or growth factors and outperformance of value or cyclical factors since last summer. Looking at various indicators, we've found that the shape of the US 2-year/10-year yield curve has provided reasonably reliable signaling for the rotations. For example, the curve steepened from 17 bps to 35 bps last December, which supported a value/cyclical rally and, given our more defensive positioning, caused our funds to slightly underperform during the final month of the year. However, expectations for a sharp economic rebound proved premature and when the ISM Manufacturing PMI declined to 47.8 in December from 48.1 in November (thus remaining in contraction territory) the yield curve promptly flattened from 35 bps to a low of 16 bps in January. Momentum/growth and defensives rallied, including many of our quality-value stocks, infrastructure holdings and REITs, and we posted a solid month on both an absolute and relative basis.

Despite the December data, we still believe that the global economy is working through a mid-cycle correction as central banks around the world ease monetary conditions and inject liquidity into the financial system. In our most recent commentary, we suggested that although many risks remained unresolved, the environment looked relatively benign for investors, with some forecasters even calling for a "goldilocks" economy. Our biggest concern was valuation and we pointed out that much of the 2019 rally was driven by multiple expansion to more than 19x forward earnings as opposed to earnings growth. In the United States, impeachment proceedings and the Democratic Party presidential primaries loomed as potential triggers for what would have been a normal, healthy correction. But as always seems to be case, something we had never even imagined has materialized to threaten the rally.

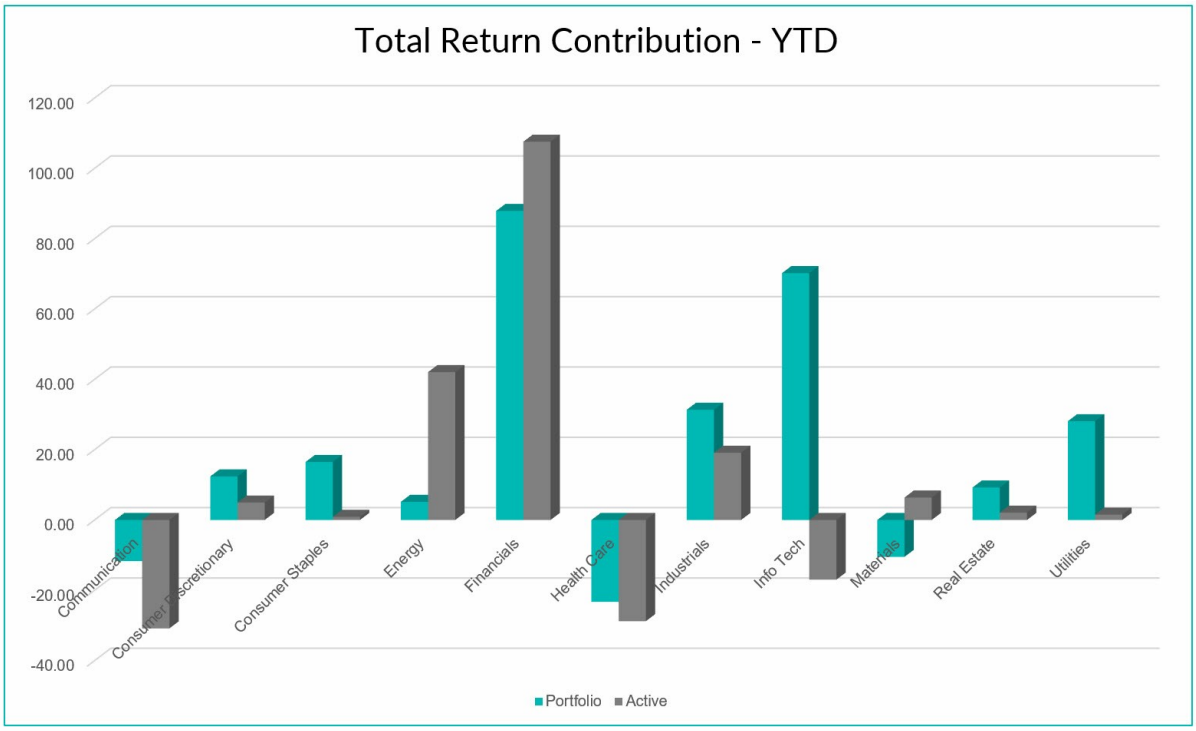
In mid-January, we began reading early reports of a novel coronavirus outbreak centered around Wuhan, the capital of Hubei province in China. We will leave a discussion regarding the science of the virus to the experts but, fully aware of the loss of life and suffering of millions of people, we must try to make sense of the outbreak from an investment perspective. Importantly, we believe that China has taken extraordinary measures to attempt to stop the spread of the infectious disease before it becomes a pandemic. However, the economic fallout will likely be significant given the unprecedented quarantine and forced closures across the country. Based on similar shocks that have occurred in the past, such as the SARS outbreak, the impact on equities should prove temporary and the markets should rebound sharply once the growth rate of new cases slows. Having said that, the medical community faces a tremendous amount of work before the WHO can declare

an end to this emergency.

Although the equity markets have been remarkably resilient, it is too early to declare victory and we plan to remain relatively defensively positioned until we can see signs that the spread of the infection is controlled. Assuming successful containment of the virus, cyclical, economically-sensitive sectors of the market will likely outperform during the recovery. As the global PMIs rebound, we will rely on our investment process to identify these types of investment opportunities and will rebalance our portfolios accordingly.

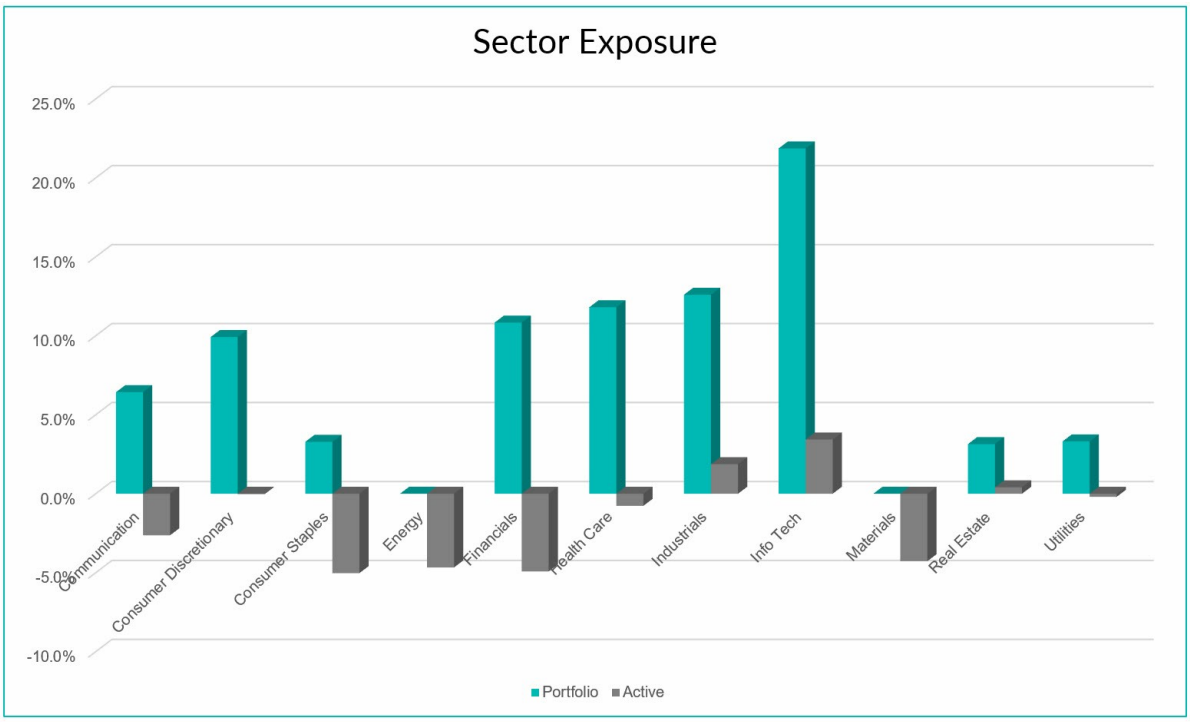
Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Class by sector included Financials (+88 bps), Information Technology (+70 bps) and Industrials (+31 bps) while top detractors by sector included Health Care (-23 bps), Communication (-12 bps) and Materials (-10 bps) on an absolute basis.

On a relative basis, positive return contributions from the Financials, Energy and Industrials sectors more than offset negative contributions from the Communication, Health Care and Information Technology sectors.



Source: Ninepoint Partners

We are currently slightly overweight the Information Technology, and Industrials sectors, while slightly underweight the Consumer Staples, Financials, Energy, Materials and Communication sectors. After the market whipsaw over the past few months, we have reduced the impact of sector allocation decisions on the portfolio while we await clarity on the coronavirus outbreak, the US presidential elections and the path of future economic growth.



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Microsoft (+48 bps), Arthur J Gallagher (+33 bps) and S&P Global (+32 bps). Top detractors year-to-date included Keysight Technologies (-29 bps), Comcast (-23 bps) and Boston Scientific (-18 bps).

With approximately 80% of China's GDP production (accounting for 90% of exports) currently under a government mandated shutdown through at least February 10th, investors have been quick to identify the sectors most at risk from the coronavirus outbreak. Airlines, online travel agencies, hotels, E&Ps and European luxury goods manufacturers have been hit particularly hard on weaker demand for travel and travel-driven retail. Chinese-based supply chains, especially in the semiconductor industry, have been under pressure and many technology hardware manufacturers could be facing component shortages in the coming weeks and months. Automotive OEMs and parts suppliers are similarly impacted and, already trying to cope with weakening demand, have performed poorly.

The top performing sectors year-to-date have been a strange mix of Information Technology (but software and internet over hardware and semiconductors) and Utilities (defensive bond-proxies that have rallied as US 10-year bond yields declined due to risk-aversion). Unsurprisingly, the worst sectors have been Energy, Materials (driven by collapsing demand out of China) and Financials (driven by net-interest-margin compression as the US 2-year/10-year yield curve flattened). But once the outbreak slows and investors refocus on the nascent recovery in the global manufacturing PMIs, we believe that investment opportunities will be found in some of these cyclical sectors and sub-industries.

The Ninepoint Focused Global Dividend Class was concentrated in 25 positions as at January 31, 2020 with the top 10 holdings accounting for approximately 37.0% of the fund. Over the prior fiscal year, 19 out of our 25 holdings have announced a dividend increase, with an average hike of 11.0%. 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 January 31, 2020; 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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