



Ninepoint Focused Global Dividend Class

June 2018 Commentary

Year-to-date to June 30, the Ninepoint Focused Global Dividend Class generated a total return of 5.08% compared to the S&P Global 1200 Index, which generated a total return of 4.97% in CAD.

Returns in the month of June were good on an absolute basis but slightly disappointing on a relative basis, with the Fund generating a total return of 0.82% while the benchmark generated a total return of 1.20%. As fears of a global trade war intensified, the defensive Consumer Staples, Real Estate and Utilities sectors led the market but we continue to believe that a full blown trade war will be averted.

Our modelling indicates that the Canadian dollar should continue to weaken in 2018. Because a resolution to the ongoing NAFTA negotiations is looking less likely in the near term, we have closed out our currency hedging, returning to a neutral positioning relative to our benchmark.

Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Class included Mastercard (+144 bps), Microsoft (+91 bps) and Visa (+88 bps). Top detractors year-to-date included Brookfield Asset Management (-45 bps), MGM Resorts International (-39 bps) and Affiliated Managers Group (-29 bps).

We've talked about one of our holdings, Constellation Brands (STZ US), in past commentaries and we wanted to revisit the investment thesis post fiscal Q1 2019 reporting. Constellation, the third largest beer distributor in the US (and sole distributor of Corona and Modelo) amazingly contributed 40% of the industry's total retail dollar sales growth in 2017 and we see a long runway for continued growth in beer. However, in advance of the Company's quarterly earnings report, we became concerned about commentary from the Company suggesting that margins in the wine segment would be weak in the quarter. Although we very rarely trade our holdings around quarterly reporting, our analysis suggested that the market had not yet correctly priced in the weaker results and we cut our position in half.

When Constellation reported on June 29, the results in the wine segment were indeed weaker than the market's expectations. Shipment volumes declined 2.9%, net sales declined 2.5% and margin weakness led to a 16.8% decline in operating income. It should be noted that management had telegraphed that operating income would decline in the quarter and but continued to target net sales and operating income growth in the 2% to 4% range for fiscal 2019. Management also remained confident in the longer-term outlook and reaffirmed forward guidance calling for EPS of \$9.40 to \$9.70, operating cash flow of \$2.45 billion and free cash flow of \$1.2 to \$1.3 billion. Because we had trimmed our position in advance of the quarter, we have the ability to use any share price weakness as a buying opportunity.

The Ninepoint Focused Global Dividend Class was concentrated in 28 positions as at June 30, 2018 with the top 10 holdings accounting for approximately 47.1% of the fund. Over the past year, 24 out

Investment Team



Jeff Sayer, CFA
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of our 28 holdings have announced a dividend increase, with an average hike of 20.8%. 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

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 June 29, 2018; 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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