Ninepoint Focused Global Dividend Class

June 2019 Commentary

Investment Team

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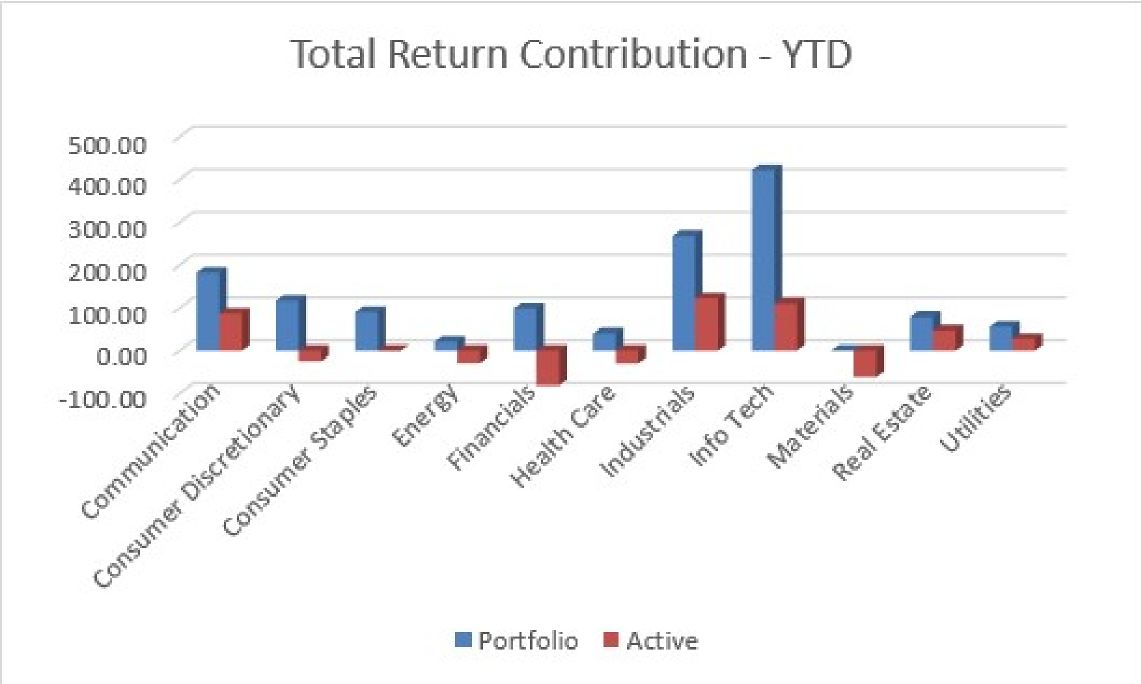
Year-to-date to June 30, the Ninepoint Focused Global Dividend Class generated a total return of 13.63% compared to the S&P Global 1200 Index, which generated a total return of 11.83%. For the month, the Fund generated a total return of 1.22% while the Index generated a total return of 3.01%. After a solid recovery rally to start the year, markets faltered in May as US-China trade negotiations broke down. However, sentiment improved dramatically through June with the indefinite suspension of US tariffs on Mexican imports, the growing expectation of a US-China trade war truce (driven by the anticipation of a Trump and Xi face-to-face meeting at the G-20 Osaka summit) and the dovish reassurances from global Central Banks. In fact, the S&P 500 (in US dollar terms) recorded its best June performance since 1995 and its best first half since 1997.

In last month's commentary, we acknowledged that the risk of an economic downturn was rising based various economic indicators, including weakening global PMIs and a flattening yield curve. Despite our concerns, we identified three potential developments that could extend the economic cycle:

> *First, the final tranche of tariffs on the remaining $300 billion worth of goods from China may not be enacted if President Trump is willing to settle for a relatively weaker deal to improve his re-election chances in 2020.*
>
> *Second, tariffs on imported goods from Mexico may be avoided if Trump receives enough assurances that Mexican authorities will step up their efforts to secure the border.*
>
> *Third, the Fed may aggressively lower the federal funds rate in a preemptive move to stimulate the domestic economy, boosting growth and inflation.*

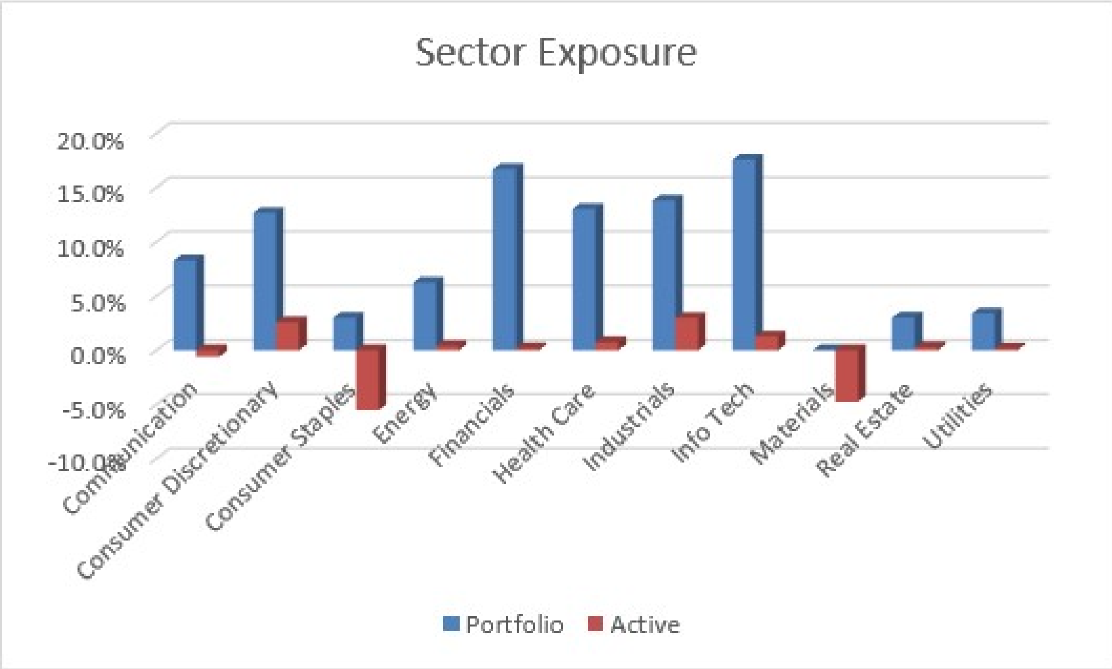
Amazingly, the world seems to be unfolding in line with this optimistic scenario. Both the first and second developments have essentially played out in bullish fashion. The final development needed for economic reacceleration, interest rate cuts, is now all but guaranteed with the US Federal Funds futures implying a 100% chance of a 25-bps cut at the July meeting and another 50 bps of cuts through January 2020. We continue to believe that this should be enough to avoid a global recession and, if the economic indicators can bottom reasonably soon, earnings expectations for 2020 should stabilize. The bull case would suggest that if we couple forward earnings growth with some multiple expansion we could still see a decent back half of the year for the broad equity markets.

Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Class by sector included Information Technology (+422 bps), Industrials (+268 bps) and Communication (+182 bps) while no sector had a negative contribution on an absolute basis. On a relative basis, positive return contributions from the Industrials, Information Technology and Communication sectors more than offset negative contributions from the Financials, Materials, Health Care, Energy and Consumer Discretionary sectors. Note that the underperformance in the Financials and Materials sectors was primarily due to sector allocation decisions as opposed to individual stock picks.



Source: Ninepoint Partners

We are currently slightly overweight the Industrials, Consumer Discretionary and Information Technology sectors while underweight the Consumer Staples and Materials sectors. Although we deployed most of our cash balances during the month, we avoided chasing the sectors and stocks most sensitive to a positive resolution to the US-China trade war given the more deeply cyclical nature of these businesses (such as certain names within the Semiconductor & Semiconductor Equipment industry).



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Mastercard (+164 bps), Microsoft (+162 bps) and Visa (+101 bps). Top detractors year-to-date included Anthem (-56 bps), Citigroup (-42 bps) and Union Pacific (-25 bps).

In June, our top performing investments included Microsoft (+32 bps), Thermo Fisher Scientific (+28 bps) and Boston Scientific (+24 bps) while Anthem (-17 bps), Amazon (-17 bps) and Union Pacific (-11 bps) underperformed.

One of our top ideas in the Health Care sector, Boston Scientific Corporation (NYSE: BSX), rallied nicely over the course of the month in anticipation of the Company's investor day on June 26th. The event lasted several hours as the medical device and interventional therapies developer, manufacturer and marketer reviewed its business outlook and long-term growth strategy. Importantly, management did an excellent job detailing its plans to both extend category leadership in core areas and expand into high growth markets around the world.

The presentation clearly articulated how future growth would be driven by the Company's impressive product pipeline across three key segments: MedSurg ($3.0 billion of sales in 2018, growing at 9%), Rhythm & Neuro ($3.0 billion of sales in 2018, growing at 8%) and Cardiovascular ($3.8 billion in sales in 2018, growing at 8%). Essentially, industry-leading research & development and various strategic acquisitions ($1 billion of R&D and 10 deals in 2018 alone) has built of pipeline that should allow BSX to launch 75 innovative products and therapies by 2022. Consistent with this timeline, management provided the explicit goal of reaching approximately 80% of sales in moderate (3% to 7% CAGR) and high (>8% CAGR) growth markets by 2022.

Based on the Company's sales mix shift to higher growth markets, management provided upbeat financial guidance, including an organic revenue CAGR of 6% to 9% and consistent double-digit adjusted EPS growth (driven by 50 to 100 bps of adjusted operating margin improvement on an annual basis) for 2020E to 2022E. We expect that the Company will generate solid free cash flow (rising from $2.2 billion in 2019E to $2.6 billion in 2021E at a 100%+ conversion rate) and maintain its disciplined capital allocation program over the period, thus creating long-term value for shareholders.

From a stock perspective, BSX currently trades just below 24x 2020E EPS, with the peer average at 24.5x and Edwards Lifesciences at approximately 32x (expensive but justified by sector leading 2020E revenue growth of approximately 10.4%). If management can consistently deliver on its plan, BSX could reasonably rerate several multiple-points higher and trade at a premium to the average of its medical device peers.

The Ninepoint Focused Global Dividend Class was concentrated in 29 positions as at June 30, 2019 with the top 10 holdings accounting for approximately 40.3% of the fund. Over the prior fiscal year, 26 out of our 29 holdings have announced a dividend increase, with an average hike of 16.1%. 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 FOCUSED GLOBAL DIVIDEND CLASS - COMPOUNDED RETURNS[1] AS OF AUGUST 31, 2021 (SERIES F NPP137) | INCEPTION DATE: NOVEMBER 26, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	2.0%	10.5%	5.7%	10.4%	13.1%	8.6%	10.6%	8.8%
S&P Global 1200 TR (CAD)	3.7%	16.4%	9.7%	15.1%	25.7%	13.9%	14.3%	12.8%

[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 28, 2019; 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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