Ninepoint International Small Cap Fund

March Commentary 2019

Due to global macro uncertainty, we remain somewhat concerned about the UK. The fundamental background for UK equities is certainly challenging, but most of the negative events have already been priced in. For that reason we believe that any potential positive macro developments should not be ignored by investors. We will continue to monitor key economic data, such as the labour market, monetary and fiscal policies and obviously the conclusion of the Brexit saga, which could dictate the trajectory of equities for the remainder of 2019.

Investment Team

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Business activity moved into negative territory for the first time since the EU referendum, and part of the decline in activity was due to a lack of new work to replace completed projects. Reduced spending by euro-area clients led to some companies to attempt to mitigate Brexit uncertainty by focusing on non-EU export markets. On the positive side, the employment index has recovered in the services and manufacturing sectors following two consecutive months of contraction.

We recently had a chance to meet with several UK companies. While many seemed cautious about the short-term outlook, the tone of management was not that negative, if we exclude political uncertainty. Although Brexit brings weak short-term visibility and depressed capital expenditure deployment in the region, it also forces companies to be increasingly vigilant about where they allocate their capital. Some have chosen to focus their efforts on overseas markets. Most companies have already established their contingency plans to mitigate the effects of both a hard and soft Brexit.

Here are our observations regarding some of our UK holdings:

- Greggs is a food-on-the-go operator in the UK with close to 2,000 retail outlets. The company sells fresh sandwiches, savoury dishes and beverages. Over the past years, Greggs successfully increased the quality of its offerings by introducing better quality coffee, healthier product choices and new savoury dishes. The company managed to increase its sales by 9.6% in the first two months of 2019. Thanks to its low-price-point strategy, Greggs should be fairly well protected from the effects of Brexit. One negative the company will have to deal with is the 3.5% expected cost inflation this year.
- Safestore is the UK's largest self-storage provider by square footage and number of sites. The UK market continued to perform strongly during 2018 with like-for-like sales growth of 5.2%. The company continues to improve its occupancy rate towards the 80% mark. Management reports that it has not yet experienced a slowdown in demand from its corporate clients due to Brexit.
- HomeServe is a provider of home emergency insurance coverage and repair services. More than 60% of its revenue comes from markets outside the UK, and its US business continues to perform strongly. With the signing of a joint venture deal in Japan and the ambition to expand

its business and add locations in at least five new countries, the management team remains focused in securing long-term growth. We have always liked the non-cyclical and high-recurring revenue and high cash-generative aspects of the company's business model. We believe that there is a substantial opportunity from its investment in the online trade platform business, Checkatrade, which replicates the HomeAdvisor platform in the US.

- Clipper Logistics is a UK specialist in retail and high-value logistics. The company has been very successful in expanding geographically and adding other logistics verticals to its offering. Its high exposure to e-commerce fulfillment gives it a solid competitive advantage over other traditional logistics companies. The structural shift towards e-commerce in the retail industry combined with the increase in volume of customer returns should continue to drive profitability for the company in the coming years. Management has noticed that several customers are postponing important investment projects because of the uncertainty around Brexit.

The outlook for the UK remains challenging, but we believe that equity prices are already reflecting all of the recent negativity. Even if the Brexit situation has put the region under pressure, we are still seeing some interesting investment opportunities in the country.

The Global Alpha Team