Ninepoint International Small Cap Fund

Q1 2022 Commentary

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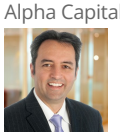

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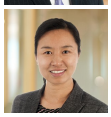

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Dear Clients and Colleagues,

In the first quarter, almost all financial markets globally saw negative returns, out of concerns about higher interest rates, war in Ukraine and inflation pressures, except for commodity-heavy markets such as Canada and Australia, both ending the quarter in positive territories. Energy was the best performing sector, and IT was the most sold off sector in most markets. Chip and component shortage issues persist and logistics costs remain at elevated levels.

That being said, US economic data was largely stable. The US unemployment rate dropped from 3.8% in February to 3.6% in March. Wages continue to rise but have not yet matched the rate of headline inflation, resulting in a deterioration of consumer sentiment. To combat inflation the Fed raised interest rates by 0.25% and there are calls from within for more aggressive tightening. Further hikes are expected for the rest of 2022 but just how many remains to be seen. Currently the expectation is for seven this year and four in 2023.

Europe is highly dependent on importing oil and natural gas from Russia and as a result underperformed. If high energy prices persist for an extended period of time it could cause a slowdown in the Eurozone economy as consumers reign in spending as reflected in a sharp move lower in consumer confidence during the first quarter of the year. On the other hand however, the consumer is benefitting from wage increases and also built up a buffer with savings accumulated during the pandemic. Various European governments and institutions are approving measures to mitigate rising energy costs for households. European dependency on Russian energy imports meant they were unable to follow the US in placing sanctions. In the short term there are few alternatives to Russian oil and gas but the European Commission announced a plan – RePowerEU – designed to diversify sources of gas and speed up the roll-out of renewable energy. The European Central Bank announced plans to end bond purchases by the end of September to combat inflation. The first interest rate rise could also come this year, saying rates would rise “some time” after asset purchases had concluded. The UK is less dependent on Russian energy imports but, as a heavy oil and gas user, is equally exposed to sustained higher energy prices. However the FTSE 100 has a large exposure to energy and mining. Consequently it was one of the strongest performing regions during the quarter. The Bank of England was one of first developed market central banks to hike rates and did so again during the quarter, rising the policy rate twice to reach 0.75%.

The ongoing spread of Omicron in Asia, and China in particular, has led to new lockdowns and added to the supply chain difficulties. The war in Ukraine has caused economic damages globally. All these factors contributed to the persistent high inflation in many economies except in Japan. The Bank of Japan kept its interest rates unchanged. China, on the other hand, has commenced accommodative monetary and fiscal policies, cutting key rates to achieve its goal to grow GDP by 5.5% in 2022.

BACK TO INTERNATIONAL SMALL CAP

During the first quarter, MSCI EAFE Small Cap Index Index returned -9.6%. MSCI EAFE Small Cap Index underperformed large cap. Emerging market equities outperformed developed small cap market equities. Within the MSCI EAFE Small Cap Index only the Energy sector had a positive return, while Health Care, Consumer Discretionary and Information Technology sectors all underperformed.

PERFORMANCE HIGHLIGHTS

For the first quarter, our International Small Cap composite delivered a return of -8.9% gross, outperforming the MSCI EAFE Small Cap Index by 0.7% gross.

Our top contributor this last quarter was Schoeller-Bleckmann Oilfield (SBO). The company produces components and parts for the oil and gas industry, primarily for directional drilling and completion applications as well as providing repair and maintenance services.

What drove the stock up?

SBO has been a beneficiary of the higher oil and natural gas prices. Even pre-pandemic, oil companies were being more prudent with their investments. The pandemic made things worse with capex down 30% from 2019 level. Yet demand was returning to pre-pandemic levels even with demand from air transport still down considerably. Then the Russian invasion of Ukraine occurred and this drove energy prices even higher. Rig counts are increasing in all regions and although this does not mean an instant increase in orders, the sentiment has improved greatly and SBO has returned to steady and sequential quarterly growth.

Another good performer this quarter was Norway Royal Salmon. This is a fish farming company with activities in Norway and Iceland. The company, being fully vertically integrated, is involved in smolt and salmon production, harvesting and sales.

So what drove the stock up?

The year started off with news of a potential merger between NRS, which is 68% owned by NTS, and SalmoNor, which is 100% owned by NTS. The rationale being to create the world's sixth-largest salmon farmer with potential to produce ~100,000t of salmon in Norway and ~24,000t in Iceland. In a complicated story, a group of shareholders who were unhappy with the merger, announced the intention to bid NOK 105 per share for NTS but were also open to selling their stakes. Subsequently, Mowi, the world's largest producer of Atlantic salmon, announced an offer to buy NTS for NOK 110 per share. A month later a competitor of Mowi, Salmar, came in with a share and cash offer of NOK 120 per share which more than half of NTS shareholders pledged to support. Salmar would appear to have greater synergies and the higher bid pushed the implied value of NRS up once more. At this point Mowi dropped their offer. The key prize in all of these bids appears to be NRS, which Salmar had bid for in August 2021 but lost to a lower bid from NTS. Among all of the corporate actions, NRS released its Q4/21 results which included a slightly lower estimated harvest volume for 2022 but these were largely overlooked as the main story is a potential change of ownership.

Our top detractor for the quarter was Savills PLC. Savills is a global real estate provider and advisor which includes: transactional, consultancy, property & facilities management, funds management and financial services. Savills have over 19,000 staff in 200 offices in 36 countries.

What drove the stock down?

2022 started well for Savills as they upgraded their 2021 guidance after a strong end to the year. However, the property market especially in the UK is likely to return to normal levels of activity after a very strong 2021 as pent-up demand seen last year begins to ease. The stock reacted negatively to the Russian invasion of Ukraine and particularly the sanctions placed upon many Russian oligarchs potentially affecting the ultra-prime real estate market in London. Yet this perception is far from reality as according to Savills, just 1.4% of central London is Russian-owned ; significantly lower than New York for example. This did not prevent the Wall Street Journal from writing a piece on sanctions putting pressure on the UK property market. UK domestic and Asian buyers are much more important to London's ultra-prime property market. Overall, less than 0.1% of Savills sales come from Russians. The more widespread impact of geopolitical events on global transaction volumes remains to be seen. Preliminary figures compiled by Savills suggest some resiliency, with total real estate investment volume in Europe for Q1/22 at around €70 billion, 19.5% up from the prior year period. Providing the Russia/Ukraine crisis doesn't last for an extended period of time, Savills expect real estate investment

volumes for 2022 to reach between €300-330 billion, 5% to 10% above the five-year average.

NEW POSITION

During the quarter, we initiated a new position in Cognyte. The company is a spin-off from Verint Systems and its software platform acts as a data warehouse, ingesting data from a multitude of sources. It also acts as an analytics engine. Its cyber threat intelligence module is branded as Luminar. About half of the company's revenue comes from software licenses in the form of subscriptions and perpetual licenses. The other half of revenue is generated from customer support and professional services, which include consulting, outsourced management, training, and implementation services. Cognyte offers a mix of cybersecurity, data analytics, and public safety. It also provides tools to analyze unstructured data from a wide variety of endpoints. It has a large varied customer base that includes over 400 government organizations as customers and approximately 600 private firms. The company will be looking at expanding its operation in the US. During the quarter we exited two names, Ansell and Anritsu.

WHAT IS OUR EAR-TO-THE-GROUND APPROACH TELLING US?

The war in Ukraine has limited impact on our international strategy. We have no direct investment in Russia or Ukraine as we invest only in developed markets. 58% of the strategy is allocated to Europe, and our names in the region are mostly concentrated in the western part of the continent (France, Italy, Germany and Spain), in Scandinavia and in the United Kingdom. Unlike large capitalisation companies which have big production facilities in Russia, the names in our portfolio do not derive much of their revenues from Russia or Ukraine, and we do not expect them to be impacted by the sanctions being imposed due to the conflict. In addition, most of the companies we own do not have operations in these two countries. A few companies that do have operations in Russia or Ukraine expect limited impact, for example DMG MORI, the largest machine tool company globally, has 2% of revenue from Russia, the company expects to resell the machine tools ordered by Russian clients to customers in other regions.
L'Occitane, a global manufacturer, marketer and retailer of organic and natural skincare and beauty products, only derives 3% of its group revenue from Russia. And lastly, Palfinger, a manufacturer of hydraulic lifting solution, only has 2% revenue exposure to Russia.

The surging commodities prices and logistics costs put pressure on companies globally. However, most holdings in our strategies are niche market leaders, they have the negotiation power to pass on higher costs and maintain healthy margins. Over half of our holdings have net cash position, which allows the companies to continue investing in people, R&D, and capacity, and gaining market share while peers with stretched balance sheets struggle financially. Our strategy is in a good position to continue to outperform the market, given the stronger financial performance, and more reasonable valuation.

The Global Alpha Team
Sub-Advisor to the Ninepoint International Small Cap Fund

NINEPOINT INTERNATIONAL SMALL CAP FUND - COMPOUNDED RETURNS[1] AS OF MARCH 31, 2022 (SERIES F NPP371) | INCEPTION DATE: MARCH 15, 2018

	1M	YTD	3M	6M	1YR	3YR	INCEPTION
Fund	-3.5%	-11.7%	-11.7%	-12.8%	-5.7%	3.5%	2.3%
MSCI EAFE Small Cap NR USD (CAD)	-1.6%	-9.6%	-9.6%	-9.8%	-4.2%	6.1%	2.9%

[1] All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at March 31, 2022; e) annual returns are from 03/15/2018. The index is 100% MSCI EAFE Small Cap NR USD (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

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