Ninepoint Focused U.S. Dividend Class

May 2018 Commentary

Year-to-date to May 31, the Ninepoint Focused US Dividend Class generated a total return of 3.53% compared to the S&P 500 Index, which generated a total return of 5.18%.

Investment Team

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Returns in the month of May were solid on an absolute basis but slightly disappointing on a relative basis, with the Fund generating a total return of 2.61% while the benchmark generated a total return of 3.43%. Information technology, industrials, consumer discretionary and energy led the advance over the course of the month and we have maintained a market weight or overweight positioning to the information technology, industrial and energy sectors. Unsurprisingly, our dividend-focused stocks have been unable to keep pace with the advances in the consumer discretionary sector, driven by Amazon and Netflix.

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 reduced some of our currency hedging, returning to a more neutral positioning relative to our benchmark.

Top contributors to the year-to-date performance of the Ninepoint Focused US Dividend Class included Mastercard (+108 bps), Microsoft (+78 bps) and CSX (+71 bps). Top detractors year-to-date included Comcast (-54 bps), Brookfield Asset Management (-38 bps) and MGM Resorts (-34 bps). Note that we have sold our position in MGM Resorts after the Company lowered Q2 RevPar guidance and looked to be facing labour unrest at its casino properties.

With a current market capitalization of approximately $950 billion, Apple (AAPL US) is leading the race to become the first $1 trillion company in the world. Despite a tremendous consumer brand and fabulous products, Apple always seems to be a controversial stock and currently trades at a forward price to earnings multiple of 16.8x (compared to the S&P 500 at 17.4x) and a 1.51% dividend yield.

The most obvious reason for the discounted valuation is the debate about whether or not Apple is just a handset manufacturer (like Nokia or Blackberry) versus something more; an ecosystem so tightly ingrained with its user base that it prevents defection. Although the market always seems to obsess over the latest iPhone sales figures (both number of units and average unit price), the key to resolving this debate surrounds service revenue. As the growth of the installed user base slows, it will be crucial that the service revenue growth is significant enough such that total revenue growth does not dip negative. As long as Apple's top line continues to demonstrate positive year over year growth each quarter, the stock should rerate higher as investors accept the "Apple-as-an-ecosystem" investment thesis.

The Ninepoint Focused US Dividend Class was concentrated in 30 positions as at May 31, 2018 with the top 10 holdings accounting for approximately 43.4% of the fund. Over the past year, 24 out of

our 30 holdings have announced a dividend increase, with an average hike of 23.5%. 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