Ninepoint Enhanced Equity Strategy

May 2019 Commentary

Investment Team

John Wilson, MBA
Co-CEO, Managing Partner,
Senior Portfolio Manager

May saw a re-escalation of trade concerns globally as trump not only continued to take aim at China but unexpectedly increased his rhetoric towards Mexico as well. Markets are starting to discount the likelihood that a trade deal between China and the U.S. by the G20 is unlikely to come to fruition - a factor that has already started to weigh on business confidence and capital investment at a time when global economic data has already been weakening. We have seen a marked deceleration in economic data globally as witnessed through Global PMI's a proxy for industrial production momentum. We note the market hard largely ignored this weakness (Chart 1), believing it was likely temporary in nature and would rebound in the second half. There has been a tendency over the past several years for weaker data in the first half of the year to see recoveries in the 2nd half however the growing prospects for a prolonged trade war is a much more tangible headwind this time around. Furthermore, Trump's willingness to threaten further tariffs on Mexico while the country was in the process of ratifying Trumps very own trade deal (USMCA) blows his legitimacy in the Chinese trade negotiations. Chinese officials recently noted their concern about the ability for any deal to be upheld even if they come to compromise on key issues.

The Trade situation seems relatively binary with the G20 meetings in late June offering either an escalation of trade concerns and more downside or a resolution and likely better equity performance. We currently have market hedges that are close to current S&P 500 levels and have hedged directly several names with Chinese trade exposure. We fortunately had limited exposure to industrials or semiconductors, two of the worst performing sectors last month. This was due to our belief that earnings expectations were too high for these sectors and valuations which already reflected accelerations in growth that were challenging to envision. While this helped us avoid some losses in key sectors, our exposure to energy has been impacted on concerns over global growth in demand. This has occurred despite already historic low valuations that in our minds offer margin of safety if crude prices were to continue to fall. The vast majority of our energy exposure is outside of Canada with holdings in producers who sell into the Brent crude market or have exposure to the U.S. Permian basin. Typical of our energy holdings are free cash flow yields well over 10%, solid balance sheets and growing production.

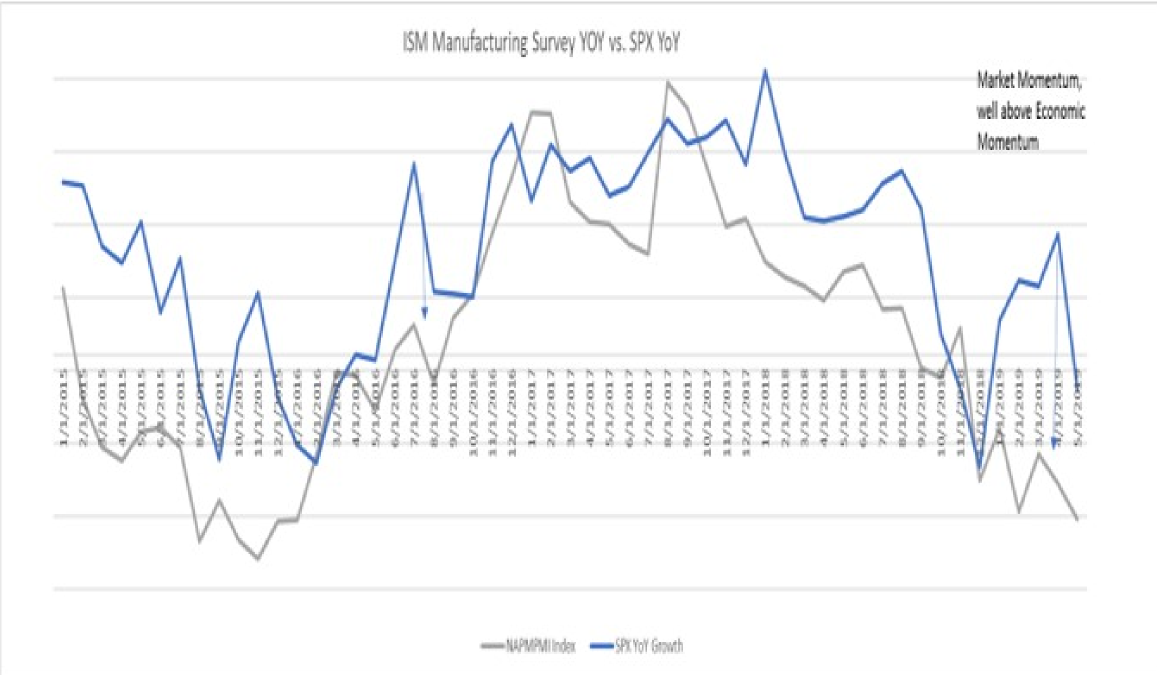
We used the opportunity of recent weakness in healthcare stocks to re-enter several positions in the sector. We had lowered our weighting in the spring considerably on the expectation of increased rhetoric from more left leaning members of the democratic party. After a considerable sell-off we've repositioned in several medical device companies and diagnostics businesses. We feel both sectors will be more defensible in a more uncertain U.S. medical reimbursement environment. The Medical device industry has historically been a deflationary pricing industry and therefore is likely to be less of target compared to drug manufactures. Both sectors offer long-term secular exposure to emerging market growth as well as double digit earnings growth and mid to high single digit revenue growth potential. We also re-entered our position in Anthem. While we do see some near-term political saber-rattling risk and have hedged the position using put spread collars into the democratic primaries.

Finally, the ongoing decline in yields across the curve continues as global central banks turn more dovish. Historically, this would be seen as a negative for banks however we note that banks profitability has been improving over the past several years even with limited improvement in yields. We continue to hold substantial positions in financials, particularly U.S. banks and a large insurance company. We expect our U.S. banks (Bank of America and Citigroup) to score well in upcoming Fed stress tests CCAR and we believe both banks are well positioned to increase capital return to shareholders going forward.

Until next month,

The Enhanced Team.

Chart 1



Source: Ninepoint Partners, Bloomberg

NINEPOINT ENHANCED BALANCED FUND - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	0.8%	0.8%	2.8%	1.4%	3.2%	0.9%	0.7%	3.4%

NINEPOINT ENHANCED EQUITY CLASS - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION

Fund	-0.1%	-0.1%	6.2%	2.6%	4.4%	0.3%	0.1%	3.8%

NINEPOINT ENHANCED LONG SHORT EQUITY FUND L.P. - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	-0.7%	-0.7%	4.9%	2.8%	5.5%	2.3%	-0.9%	1.3%	2.2%

NINEPOINT ENHANCED LONG SHORT EQUITY RSP FUND - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	-0.8%	-0.8%	4.9%	2.4%	4.3%	1.2%	-1.7%	0.5%	1.2%

NINEPOINT ENHANCED US EQUITY CLASS - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	INCEPTION
Fund	-0.2%	-0.2%	4.1%	4.1%	7.6%	4.9%	2.3%

[1] All returns and fund details are a) based on Class/Series F shares/units; b) net of fees; c) annualized if period is greater than one year; d) as at May 31, 2019; e) inception date for Ninepoint Enhanced Equity Class is 04/16/12. The index for the Ninepoint Enhanced Equity Class; Ninepoint Enhanced Long Short; and Ninepoint Enhanced Long Short RSP is 50% TSX & 50% S&P 500 (CAD) Blended Index and is computed by Ninepoint Partners LP based on publicly available index information. The index for the Ninepoint Enhanced US Equity Class is S&P 500 TR USD and is computed by Ninepoint Partners LP based on publicly available index information.

The risks associated with investing in a Fund depend on the securities and assets in which the Fund invests, based upon the Fund's particular objectives. There is no assurance that any Fund will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Fund will be returned to you. The Funds are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Fund's prospectus or offering memorandum before investing.

Ninepoint Partners LP is the investment manager to the Ninepoint Funds (collectively, the "Funds"). Commissions, trailing commissions, management fees, performance fees (if any), other charges and expenses all may be associated with mutual fund investments. Please read the prospectus carefully before investing. The indicated rate of return for series F units of the Fund for the period ended May 31, 2019 is based on the historical annual compounded total return including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The opinions, estimates and projections (“information”) contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners LP. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners LP is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540