Ninepoint Concentrated Canadian Equity Fund

May 2020 Commentary

Investment Team

The S&P/TSX added 3.0% in May with Information Technology (+15%), Consumer Discretionary (+8%) and Health Care (+6%) leading the market while Real Estate (+0.2%), Utilities (+0.6%) and Financials (+0.6%) all lagged.

Despite strong outperformance late in the month, our portfolio slightly underperformed as security selection in Industrials and sector underweights (driven by our bottom-up value philosophy) in both Financial Services and Information Technology detracted value. These losses were mostly offset by gains from security selection in Energy and Materials, along with our sector overweight in Consumer Discretionary.

In Energy, both Cenovus Energy (+19%) and Ovintiv (+21%) rallied on the back of the increase in oil prices (WTI +88% and Western Canada Select +145%). While both companies have performed strongly in the last two months, they still remain 50%-60% lower on the year and we believe provide decent upside potential, hence our rationale to continue to hold the positions.

In Materials, our positions in Teck Resources (+7%) and Interfor Corporation (+15%) as well as not owning Barrick Gold Corp. (-7%) added value. Teck and Interfor rallied with the general improvement in economic sentiment, as economically sensitive commodities increased in the month (copper +3% and met coal +6% in Teck's case and lumber +13% in Interfor's case).

In Consumer Discretionary, our sector overweight (based on our bottom-up value philosophy in finding a number of attractive names including: Linamar, Sleep Country, Gildan Activewear) added value as the sector outperformed by 5%.

In the Industrials sector, our positions in Westshore Terminals (-2%) and ATS Automation (-3%) detracted value. Both Westshore and ATS Automation have performed well over the last few months relative to the market. However, with the rebound in asset values, they have lagged other stocks in the Industrials' sector, which are more economically sensitive. We continue to find both names attractive and believe that decent upside potential exists.

In Financials, our sector overweight (based on our bottom-up security selection) detracted value as the sector underperformed by ~2%. However, our positions in CIBC (+7%) and CI Financial (+10%) both added value, offsetting some of the sector losses. CIBC and all the banks reported Q2 results. While there was a wide range in the provisions for credit losses taken (depended on management's decision to take provisions quarter by quarter versus all at once), there were a number of positive surprises. These included strong Capital Markets activity, resilient Tier I Capital levels (range from 10.9% to 11.7% versus OSFI requirements of 9%), and as expected, no impacts on dividend payments. We remain overweight the banks with positions in CIBC, BNS, Royal Bank and TD Bank. CI Financial rallied because of the market recovery impact on its AUM. Quarterly results also provided the proof point that their re-organization is well under way and that CI will emerge stronger post COVID-19. Balance sheet and capital allocation continues to be managed conservatively. We

continue to find CI Financial attractive.

Our Information Technology sector underweight detracted value. Shopify (+18% - no position held) remains extremely expensive (8400X 2020 estimates with GAAP profitability in 2024). While we acknowledge that Shopify has built an impressive e-commerce platform that is taking market share, a lot can change in the technology (software) space before the company sees any reasonable level of profitability. In addition, as such we are not prepared to commit client capital to a binary outcome like this.

Towards the end of the month, we had a number of strong days of relative outperformance as the market began to see through the current economic slowdown. It demonstrates that when the market gets more optimistic about the economic outlook, that performance can reverse pretty quickly. While we know that our positions are very attractive, we do not know when the market will start to recognize this, as we do not believe in trying to time markets. Instead, we focus on our fundamental bottom-up analysis of earnings, cash flow and book value, investing in companies that trade at a discount to their intrinsic worth (knowing that market fundamentals will reassert themselves over the long term).

Ratul Kapur, CFA
Scheer Rowlett & Associates - Sub-Advisor

[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 May 31, 2020; e) since inception (March 29,2018). The index is 100% S&P/TSX composite Index and is computed by Ninepoint Partners LP based on publicly available index information.

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