Ninepoint Focused US Dividend Class

November 2018 Commnetary

Year-to-date to November 30, the Ninepoint Focused US Dividend Class generated a total return of 3.25% compared to the S&P 500 Index, which generated a total return of 11.03%.

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

Returns in the month of November were good on an absolute basis but slightly disappointing on a relative basis, with the Fund generating a total return of 2.00% while the benchmark generated a total return of 3.00%.

After a dramatic correction in October, with the S&P 500 falling 10.6% to an intraday low on October 29, markets recouped some of the drawdown in November. Our investments in the Health Care, Industrials and Financials sectors generated gains, while our investments in the Information Technology and Energy sectors detracted from performance. Currency hedging also slightly detracted from performance in November as the USD continued to benefit from flight-to-safety capital flows in a volatile macro environment.

During any challenging period, it is important to understand what has been driving broad sentiment and adhere to an investment process that works over the cycle. In the very near term, investors are focused on the extremely flat yield curve (but the 2-year to 10-year spread is still not inverted), US-China trade developments (we believe that some progress was made at the G20 meeting), low oil prices (OPEC and Russia have agreed to reduce output in an effort to support prices) and BREXIT (the UK parliament has postponed voting on the matter for now).

Given these cross currents, perhaps it is not surprising that the S&P 500 has violently whipsawed within a range roughly defined by 2,600 (approximately 14.5x forward earnings estimates) and 2,800 (approximately 15.75x forward earnings estimates) since early October. However, we expect markets to end the year higher than today based on a more dovish FED (we are looking for a December rate hike accompanied by language indicating a willingness to pause sometime over the following twelve months) and continued progress on US-China trade negotiations (even if a formal trade deal remains elusive).

Our modelling indicates that the Canadian dollar is slightly undervalued. However, the equity market selloff, oil price collapse and trade war rhetoric have introduced a new level of complexity to our FX analysis as prior correlations have become less statistically significant. We have therefore maintained hedges on half of our USD/CAD exposure to reduce volatility in the Fund.

Top contributors to the year-to-date performance of the Ninepoint Focused US Dividend Class included Microsoft (+155 bps), Mastercard (+143 bps) and Thermo Fisher Scientific (+133 bps). Top detractors year-to-date included Chevron (-56 bps), Canadian Natural Resources (-55 bps) and Marathon Petroleum (-50 bps).

The Ninepoint Focused US Dividend Class was concentrated in 26 positions as at November 30, 2018 with the top 10 holdings accounting for approximately 43.3% of the fund. Over the prior fiscal year, 22 out of our 26 holdings have announced a dividend increase, with an average hike of 12.1%. 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

COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	INCEPTION
Fund	2.0%	3.2%	-5.5%	-0.3%	0.9%	7.0%	6.7%
Index	3.3%	11.5%	-2.6%	5.6%	9.6%	12.1%	11.9%

[1] All returns and fund details are a) based on Series F shares; b) net of fees; c) annualized if period is greater than one year; d) as at November 30, 2018; e) 2015 annual returns are from 11/25/15 to 12/31/15. The index is S&P 500 TOTAL RETURN INDEX (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

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