# Ninepoint International Small Cap Fund Market View

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## Investment Team

**Robert Beauregard, CFA, CMA, CPA**
Chief Investment Officer & Portfolio Manager, Global Alpha Capital Management - Sub-Advisor

**Qing Ji, ME, MBA, CFA**
Portfolio Manager, Global Alpha Capital Management - Sub-Advisor

Dear Clients and colleagues:

2019 has been a bit soft for mergers and acquisitions (M&A). This is due to a range of uncertainties, from the US-China trade war and apprehension about global growth, to continued Brexit instability. However, it is not all bad news. According to Refinitiv, as of October, M&A deal volumes have surpassed $3 trillion, making 2019 the fourth highest year to date going back to 1970.

Corporations are in search of top-line growth and want access to new customers and geographies. A key difference in this M&A cycle? It is driven by strong cash balances and free cash flow, and not just cheap financing.

So far this year, the Americas are leading the world in M&A volume with a record high of $1.67 trillion. Easy financing, the impact of earlier tax cuts and a stronger economy (when compared to Europe and Asia) are helping drive the deals.

Across the pond in Europe, the UK is the second largest region for cross-border M&A activity. Brexit uncertainty has caused asset prices to depress, and the value of the pound has fallen since the 2016 referendum was first announced, which is also helping deal activity. Meanwhile, in Germany M&A activity continues to be resilient.

Asia-Pacific is seeing a slowdown in M&A activity due to the US-China trade war. According to Bloomberg, outbound deals from China have dropped 75% since their peak in 2016. However, in other parts of Asia, such as Japan, M&A activity continues to thrive. Japanese conglomerates are selling their non-core assets and some are looking for outbound acquisitions. Many Asian emerging economies are also experiencing strong volumes in M&A.

## How does this impact our portfolios?

Our portfolios benefit in two ways from an active M&A environment.

### 1. Holdings being acquired

The accelerating M&A environment is positive for smaller companies. Their mega counterparts are willing to pay to acquire small and innovative companies that can provide positive long-term growth potential. What's more, big companies seem to be diversifying the types of acquisitions they make. Larger, maturing companies do not have the same ability as small companies to innovate. Small companies have the capacity to adjust, create and develop faster due to their nimble structure.

Below are some of our portfolio companies that have been acquired so far this year.

**Greencross:** (highlighted in our June 3, 2016 commentary)

- Australian pet health company founded in 1994
- Number one pet care specialist in Australia, providing both retail and veterinary services
- Provided exposure to animal clinics and pet retail stores

**Inmarsat:** (highlighted in our May 4, 2018 commentary)

- UK-based operator of a global communication satellite system
- Very high barriers to entry due to scarcity of available radio spectrum and complexity of regional rights negotiations
- Provided exposure to the mobility market across land, air and sea

**Electronics for Imaging:** (highlighted in our Nov 23, 2018 commentary)

- US-based technology company providing analog to digital imaging transformation services
- Leading player in the commercial printing market with a balance of hardware (industrial printers) and software (printing management and productivity)
- Provided exposure to the digital manufacturing economy

**Cambrex:** (highlighted in our September 6, 2016 commentary)

- US-based Active Pharmaceutical Ingredient (API) manufacturer
- Very high barriers to entry due to FDA regulations and limited API manufacturing facilities in the US
- Provided exposure to the secular trend of big pharma production outsourcing

**Safecharge:**

- UK-based global provider of digital payments and transaction-related solutions
- Most reliable platform and highest free cash flow yield in the industry
- Provided exposure to online spending from e-commerce, gaming, etc.

**Stallergenes:**

- Global healthcare company specializing in the diagnosis and treatment of allergies
- Largest allergen and final allergen immunotherapy product manufacturing capacity in world
- Provided exposure to the growing allergic disease market

## 2. Owning an M&A advisory firm

An M&A advisory firm provides advice on corporate mergers, acquisitions and divestitures as well as debt and equity financing. Essentially, an M&A firm acts as the middleman in business sale transactions, either for the seller or the buyer.

Global Alpha has had exposure to this industry via names such as Evercore (highlighted in our February 20, 2015 commentary) and Nihon M&A Center (highlighted in our May 29, 2015 commentary). Both names were exited due to their valuation.

We currently have exposure to the industry via Rothschild (ROTH FP). Founded in 1838, Rothschild is a French-based financial company. Rothschild is one of the world's largest independent financial advisory groups. It provides M&A, strategy and financing advice, as well as investment and wealth management guidance. With a foothold in over 40 countries, Rothschild has more than 52 offices and 3,500 employees. The company is also very active in providing advisory services for debt issuances, initial public offerings and secondary placements.

Global small cap companies are not always known by name, but they invariably touch our daily lives in important ways. The next time you hear about an M&A deal, it is quite possible that one of our holdings is benefitting from the transaction.

Have a great week ahead!

**The Global Alpha team**

## MONTHLY RETURNS (%) AS AT OCTOBER 31, 2019, SERIES F

| | 1M | YTD | 3M | 6M | 1YR | INCEPTION |
|---|---|---|---|---|---|---|
| Fund | 4.8% | 14% | 4.0% | 0.7% | 11.5% | 2.2% |
| Index | 3.8% | 12.7% | 4.9% | 0.4% | 8.9% | -1.4% |

[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 October 31, 2019; 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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