Ninepoint Concentrated Canadian Equity Fund

October 2018 Commentary

Investment Team

The S&P/TSX fell 6.3% as Healthcare (-18%), Energy (-9%), and Information Technology (-8%) led the market lower while Consumer Staples (-1%), Telecoms (-2%) and Utilities (-3%) gave up less than the market. Of these six sectors, the concentrated portfolio only has investment in the energy sector, along with four other sectors.

Our portfolio underperformed as the gains from security selection in Financials and our sector underweight in Healthcare (based on our lack of finding any value names in the sector), were more than offset by losses from security selection in Energy and Materials.

In Financials, Element Fleet Management (+17%) added value. Re-invigorated with a new independent Board and new executive leadership, Element Fleet unveiled a comprehensive strategic roadmap to stabilise the business and bolster its foundation for sustainable future growth. As a result, the stock increased to the ~$8 level – far off the $4 lows in March when they announced a write-off in their JV truck leasing business and a leadership change. Having added to our position during the decline, we believed the underlying value was not impaired. Given the strength of the stock, we exited during the month.

The Healthcare sector underperformed the market by ~12%; our zero weight added value. Having garnered significant gains over the past few quarters, the cannabis stocks declined as the legalization date came and went. Despite the declines, the three listed names still command a 1.1% index weight and remain extremely volatile. As a bottom-up value investor, we find the valuations extremely difficult to justify given the low barriers to entry and unknown profit metrics.

In Energy, Trican Well Service (-22%) and Crescent Point Energy (-24%) both detracted value as they fell with Canadian oil prices (light and heavy), as differentials to WTI widened to record levels. Trican is experiencing a difficult operating environment (lower than expected utilization and competitive, low pricing), as customers decrease activity to reflect lower cash flows. Trican has low debt and trades at a substantial discount to book and replacement value, which we expect to be realized once differentials normalize. Crescent Point has struggled due to recent light oil price weakness, especially as it attempts to restructure and improve returns. We believe significant value exists and will materialize as the energy sector recovers.

In Materials, Sherritt International (-29%) and Lundin Mining (-21%) detracted value. Sherritt, which benefited earlier in the year on improved nickel and cobalt price outlook (a by-product in their operations with both metals used in electric vehicle batteries), pulled back as nickel prices declined. We believe Sherritt has strong longer term upside potential on improvements in the nickel supply environment (LME inventory levels are down 40% YTD). While Lundin reported decent Q3 results, like others in the base metal space, they were negatively impacted by weaker copper prices (-4% in the month) and concerns about a global economic slowdown. Trading at 12X forward price/earnings multiple, 5X forward price/cash-flow and at 0.8X price/book value per share, Lundin is a very

attractive portfolio holding for direct copper exposure and represents almost 50% upside from current levels, whereas Sherritt could be a double, if not a triple, as it trades at a mere 0.2x BV.

With central bank policy rates increasing in both the U.S. and Canada, we are in a tightening phase as North American economies continue to expand. Rising rates along with some early Q3 results that did not meet aggressive expectations have caused markets to sell off in the last few weeks, with a cheaper market like Canada not being spared from the negative sentiment. Based on our fundamental bottom-up value investment approach, our portfolio of 21 selective names, remains completely out of some of the expensive stocks in the market (cannabis shares, Shopify & Constellation Software) and not invested in expensive stocks that are sensitive to rising interest rates (some of the REIT's & Utilities). However, we are invested in a number of very attractively priced companies in financials (banks), energy (services and producers), airlines and materials.

With Regards,

Robert Dionne

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[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, 2018; 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.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: ADR risk; Concentration risk; Credit risk; Currency risk; Cybersecurity risk; Foreign investment risk; Inflation risk; Liquidity risk; Market risk; Regulatory risk; Securities lending, repurchase and reverse repurchase transactions risk; Series risk; Small company risk; Specific issuer risk; Sub-adviser risk; Tax risk.

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