Ninepoint Focused Global Dividend Class

October 2019 Commentary

Year-to-date to October 31, the Ninepoint Focused Global Dividend Class generated a total return of 15.40% compared to the S&P Global 1200 Index, which generated a total return of 16.29%. For the month, the Fund generated a total return of -0.94% while the Index generated a total return of 1.90%.

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

The investment themes prevalent in September carried on through October, driven by the same factors that we have discussed in our prior monthly commentary. Consensus longs linked to momentum factors underperformed consensus shorts linked to value factors by a wide margin. Using the respective S&P indexes as proxies, the S&P Momentum Index generated a total return of -0.12% while the S&P 500 Value Index generated a total return of 2.65% in October. The disparity is even more dramatic over the past three months, as the S&P Momentum Index generated a total return of -0.22% while the S&P 500 Value Index generated a total return of 3.73%. Despite the challenging environment, our investment process is now clearly picking up individual investment candidates that are diversified between growth or momentum factors and value or cyclical factors, so we have actively rebalanced our portfolios.

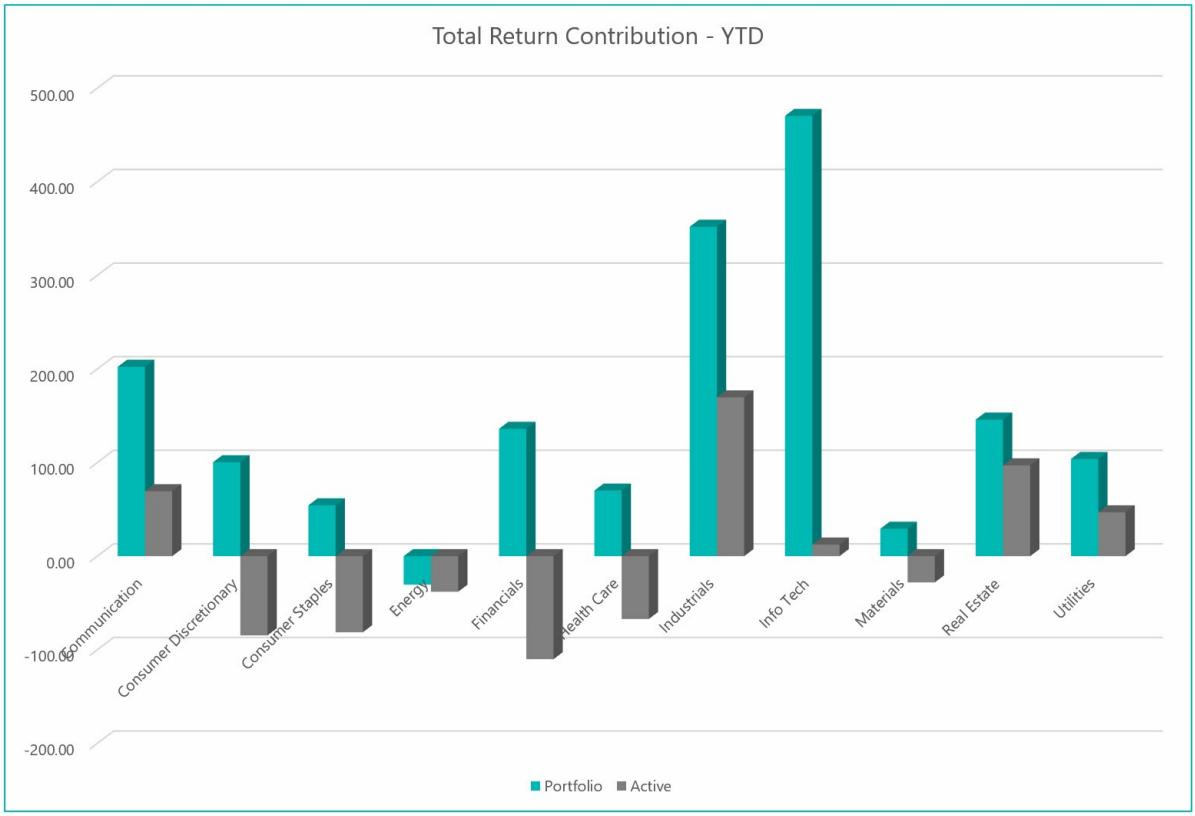
The regime change, whether or not it persists into 2020, was driven by two key factors. First, continued progress toward de-escalating the US-China trade war has gone a long way in terms of improving investor confidence. Markets celebrated the announcement, on October 11, of preliminary details of a “phase one” trade deal, that included a delay in the proposed tariff increases in exchange for certain intellectual-property rights, access to financial services and agricultural purchases. Second, central banks around the world continued to ease monetary conditions. In a widely anticipated move, on October 30, the US Fed cut interest rates by 25 bps for the third time this year, reducing the overnight rate by a total of 75 bps since this mini-easing cycle began.

The effects of these two factors, in addition to simply the passing of time as investors work through what still appears to be a mid-cycle correction, can be seen in the rebound of the US 10-year bond yield (from a low of 1.43% in early September to just over 1.90% recently), the steepening of the 2-year/10-year yield curve (from -4 bps in late-August to 16.5 bps by the end of October) and the stabilization of certain economic data points. In fact, some early economic releases for October have indicated positive trends, with the US flash manufacturing PMI improving (to 51.5 from 51.1 in September), the Eurozone flash manufacturing PMI stabilizing (flat at 45.7 relative to September) and the China Caixin manufacturing PMI improving (to 51.7 from 51.4 in September).

Despite the volatility caused by the uncertain macroeconomic environment, we will continue to follow our investment process (both on the buy side and the sell side of trades), construct a concentrated but diversified portfolio and watch the incoming data extremely closely for any signs of weakness. However, we believe that postponing the previously announced tariff increases should be enough to avoid the worst-case scenario, an economic downturn culminating in a recession.

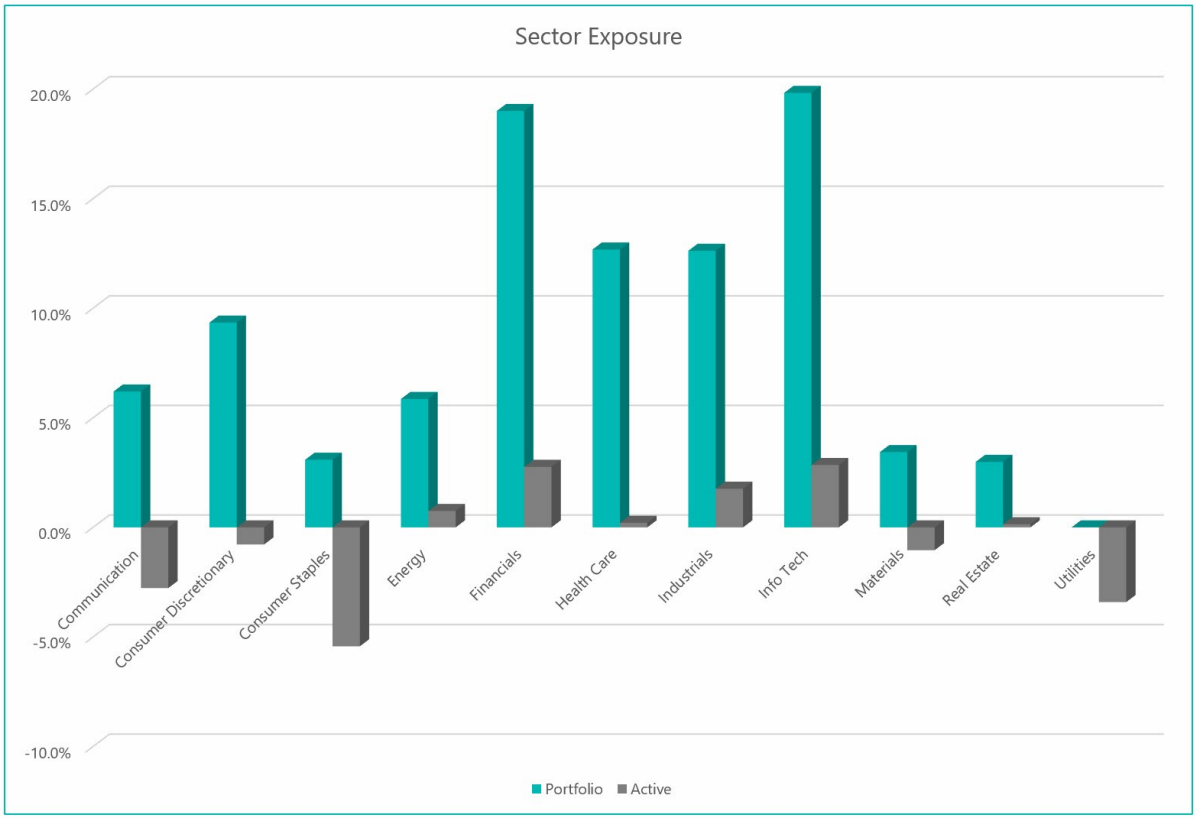
Further, for Trump to win re-election next November, he must ensure a reasonably firm domestic economy driven by strong consumer confidence, solid employment figures and a recovery in the manufacturing sector. If this scenario continues to play out, the broad markets should be able to gain ground through the balance of the year.

Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Class by sector included Information Technology (+470bps), Industrials (+352 bps) and Communication (+202 bps) while only the Energy sector had a negative contribution on an absolute basis. On a relative basis, positive return contributions from the Industrials, Real Estate, Communication, Utilities and Information Technology sectors more than offset negative contributions from the Financials, Consumer Discretionary, Consumer Staples, Health Care, Energy and Materials sectors. Note that the underperformance in the Materials sector was primarily due to a sector allocation decision as opposed to individual stock picks.



Source: Ninepoint Partners

We are currently slightly overweight the Information Technology, Financials, Industrials, Energy, Health Care and Real Estate sectors, while slightly underweight the Consumer Staples, Utilities, Communication, Materials and Consumer Discretionary sectors. After the market whipsaw over the past few months, we have reduced the impact of sector allocation decisions on the portfolio while we await clarity on interest rate policy, trade negotiations and economic growth.



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Microsoft (+205 bps), Mastercard (+187 bps) and Brookfield Asset Management (+130 bps). Top detractors year-to-date included Citigroup (-67 bps), Anthem (-56) and Chevron (-54 bps).
In October, our top performing investments included FMC Corporation (+25 bps), TJX (+19 bps) and Raytheon (+15 bps) while McDonalds (-30 bps), Constellation Brands (-30 bps) and ONEOK (-19 bps) underperformed.

We have been underweight the Materials sector for several years now, which has served us reasonably well. However, with the onset of the rotation to sectors and stocks more traditionally associated with value or cyclical factors we have been digging around for some investment ideas in the sector. Several potential candidates have appeared on our screens, but we are unwilling to allocate capital to pure commodity plays at this point. But after completing our work on FMC Corporation (FMC), we felt confident in building a position in the portfolio.

FMC Corporation, classified as a diversified chemicals manufacturer, is really an agricultural sciences company that provides crop protection solutions (including insecticides, herbicides and fungicides) to growers around the world. The Company is well-positioned to benefit from the mega-trends of population growth, rising demand for food (including the plant-based protein craze) and fewer arable acres per capita, which all drive the quest for improved crop yield. With the acquisition of DuPont's Crop Protection business on November 1, 2017 and the distribution of all the Company's lithium business (now known as Livent Corporation) to shareholders on March 1, 2019, FMC has a strong enough product portfolio and pipeline to become the industry leader in crop protection.

At the Company's 2018 investor day, management articulated their optimistic five-year plan for shareholders. Essentially, by spending approximately $1.8 billion of capital over the next five years, FMC is looking to grow revenue at a 5% to 7% CAGR to between $5.5 and $6.0 billion by 2023 and

grow EBITDA at a 7% to 9% CAGR to between $1.5 and $1.7 billion (implying approximately 300 bps of margin expansion over the period). Based on management's projections, the free cash flow conversion rate doubles, FCF as a percentage of net income grows from 35% to 70% and EPS growth outpaces EBITDA growth as cash is deployed to reduce the number of shares outstanding.

The release of the Company's Q3 2019 financial results validated management's strategic plan thus far, with revenue growth of 10%, adjusted EBITDA growth of 18% and adjusted EPS growth of 32%, beating consensus expectations by a wide margin. As seasonal payables are collected, free cash flow is expected to total more than $500 million in Q4 2019, with almost $400 million earmarked for share repurchases. Although the shares rallied nicely after the release of the financial results, with the stock currently trading well below prior peak multiples and at more than a two multiple-point discount to the market (based on consensus EPS), we expect continued strength through year end.

The Ninepoint Focused Global Dividend Class was concentrated in 30 positions as at October 31, 2019 with the top 10 holdings accounting for approximately 33.8% of the fund. Over the prior fiscal year, 26 out of our 30 holdings have announced a dividend increase, with an average hike of 16.9%. 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

NINEPOINT FOCUSED GLOBAL DIVIDEND CLASS - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	INCEPTION
Fund	-0.9%	15.4%	0.1%	1.0%	10.0%	9.7%	6.8%

[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 October 31, 2019; e) 2015 annual returns are from 11/25/15 to 12/31/15.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: ADR risk; Capital depletion risk; Capital gains risk; Class risk; Credit risk; Currency risk; Cybersecurity risk; Derivatives risk; Exchange traded funds risk; Foreign investment risk; In ation risk; Interest rate risk; Liquidity risk; Market risk; Securities lending, repurchase and reverse repurchase transactions risk; Series risk; Short selling risk; Speci c issuer risk; Tax risk.

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