



Ninepoint International Small Cap Fund Market View

November 01, 2019

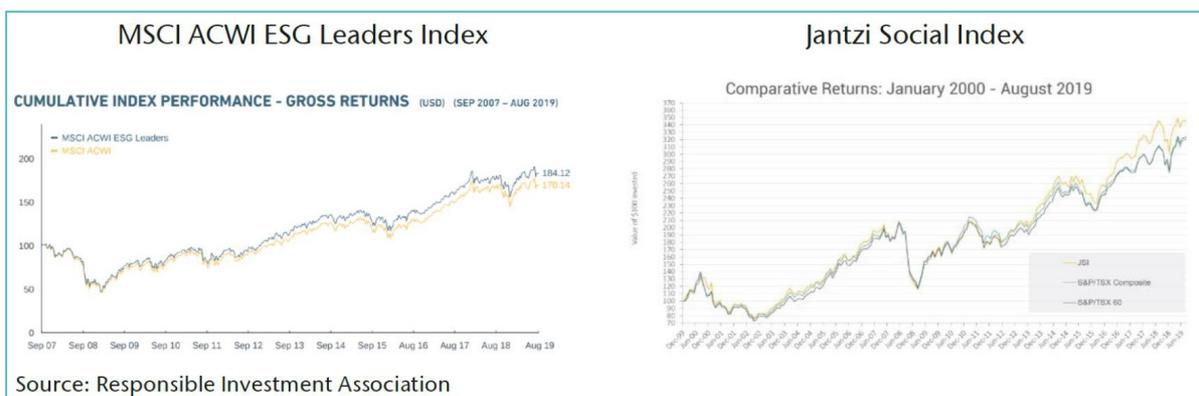
Dear Clients and Colleagues:

Investment Team

Last week, CFA Society Vancouver held an event called Responsible Alpha. Over 100 institutional investors participated. Our colleague Qing Ji was invited to be one of the panelists. As the only stock picker on the panel, Qing presented the evolution of Global Alpha's environmental, social and governance (ESG) policy and how we integrate ESG into the fundamental analysis of an individual stock. The practical perspective of our approach resonated well with the audience, because more and more investors want to truly understand ESG risks and opportunities for themselves and not just rely on the ratings of ESG service providers.

Currently, more than one-quarter of assets under management globally are being invested according to the premise that ESG factors can materially affect a company's performance and market value (Global Alpha Capital Management). In Canada, over half of the assets under management are responsible investments. (2018 Canadian Responsible Investment Trends Report)

The outperformance of responsible investments versus traditional investments is well documented. Below are just two examples of established responsible investment indices.



At Global Alpha, we use an internally designed scoring system to evaluate the ESG performance of companies. But the scoring is only a tool, not a goal. In fact, the scoring is the beginning of our engagement process. Through continuous dialogues with companies and ESG services providers, we aim to help improve companies' ESG practices over time. With the efforts of many stakeholders, progress is definitely being made across our investment universe.

A good example is Japan. We have been investing in Japan since our firm's inception in 2008. Back then, very few small cap companies had independent directors, not to mention board diversity or

ESG disclosure. Things began to improve after Abenomics started in 2012 to encourage better disclosure and higher return on equity. In 2015, the Corporate Governance Code was introduced with more specific recommendations. According to the 2019 Japan Proxy Season Review issued by ISS, currently 99% of Japanese boards of directors include at least one outside director, 88% have at least two outside directors, and in 48% at least one-third of board members are outsiders. Also 38% of Japanese boards have at least one female director.

If you have read our previous weekly commentaries on responsible investment, you will recall that we have been proactively launching new initiatives every year to improve our ESG practices. We are happy to report some recent progress:

- **Carbon Footprint Report of Portfolios**

Previously, we had our portfolios' carbon footprints analyzed by ISS once a year. In the third quarter of 2019, we subscribed to a new ISS database that enables us to generate a carbon footprint analysis on our own as and when needed. We will publish the report quarterly on our website. This will certainly help us monitor the data more closely and enhance the disclosure of our practice.

- **ESG Scoring Guidelines**

Japan has long been considered an exception in corporate governance when it comes to proxy voting recommendations by ISS. Considering the ESG progress made in Japan and the global trend towards consistent standards, we updated our scoring guidelines to be more stringent on governance in Japan. Our guidelines now suggest that one-third of a company's board of directors should be outsiders, and we seek at least one female director on the board. Previously, our guidelines specified that boards include at least two outside directors.

Looking ahead, there is still lots of room to improve. We are currently updating our Proxy Voting Policy and preparing our first portfolio climate impact report. This report goes beyond carbon footprint analysis and includes scenario, physical risk and transition climate risk analysis. Please stay tuned.

Have a great week ahead.

The Global Alpha team

MONTHLY RETURNS (%) AS AT OCTOBER 30, 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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