Ninepoint Focused Global Dividend Class

September 2019 Commentary

Year-to-date to September, the Ninepoint Focused Global Dividend Class generated a total return of 16.50% compared to the S&P Global 1200 Index, which generated a total return of 14.12%. For the month, the Fund generated a total return of -1.59% while the Index generated a total return of 2.02%.

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

Unfortunately, the drivers behind our significant outperformance last month reversed in September, with bond yields spiking and secular growth-based strategies underperforming relative to cyclical value-based strategies. Essentially, consensus longs underperformed consensus shorts by a massive margin. Despite the whipsaw, we have been able to protect much of our year-to-date gains relative to the benchmark by simply following our disciplined investment process.

Although we always strive to adhere to our process irrespective of the noise, investing in today's environment feels particularly challenging. Investor crowding (overweight secular growth and underweight cyclical value), unusual fundamentals (historically wide valuation gaps between styles and sectors) and deteriorating economic data (US manufacturing ISM at 47.8%, the lowest reading since June 2009) have led to some outsized market moves. On top of these issues, protests in Hong Kong, the threat of impeachment proceedings against President Trump and Elizabeth Warren's recent rise in the polls have created even more uncertainty.

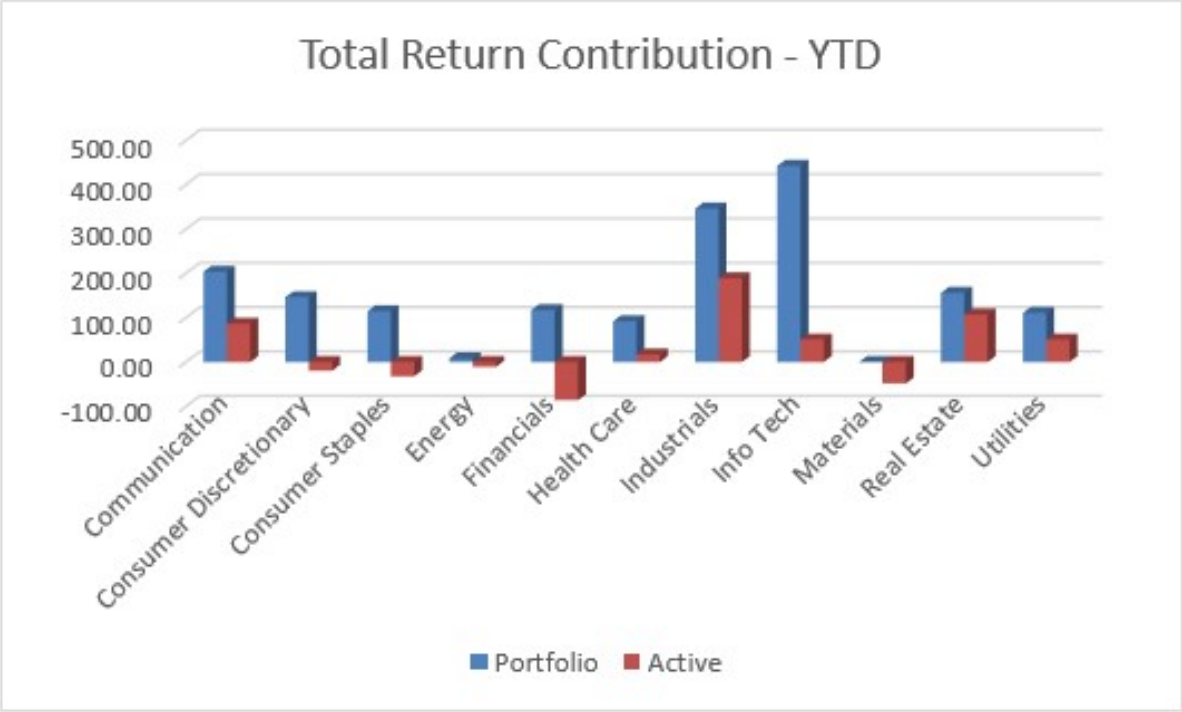
However, global monetary easing (the ECB cut rates on the deposit facility by 10 bps to -0.5% and restarted asset purchases at a rate of €20 billion per month while the US Fed cut interest rates by 25 bps to 2.00%) and the potential for a truce in the US-China trade war (high-level meetings will take place in Washington on October 10th and 11th) provided reasons to believe in the "mid-cycle correction" argument.

So it's no wonder that the broad markets have been whipping around as investors flip-flop between positioning for an outright recession (believing that global central banks will be unable to prevent negative GDP growth resulting from the ongoing trade war) and positioning for a regime change in market leadership (believing that cyclicals and value stocks are simply too cheap relative to secular growth and defensive stocks).

From our perspective, 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, hold a higher-than-normal cash balance and watch the incoming data extremely closely. We firmly believe that the path forward is highly dependent on at least a partial resolution to the US-China trade negotiations. Cancelling or even just postponing the previously announced tariff increases should be enough to avoid the worst-case scenario, an economic downturn culminating in a recession. If Trump's end goal is to be re-elected 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 by any means necessary. If this scenario plays out, the broad markets should be able to gain ground

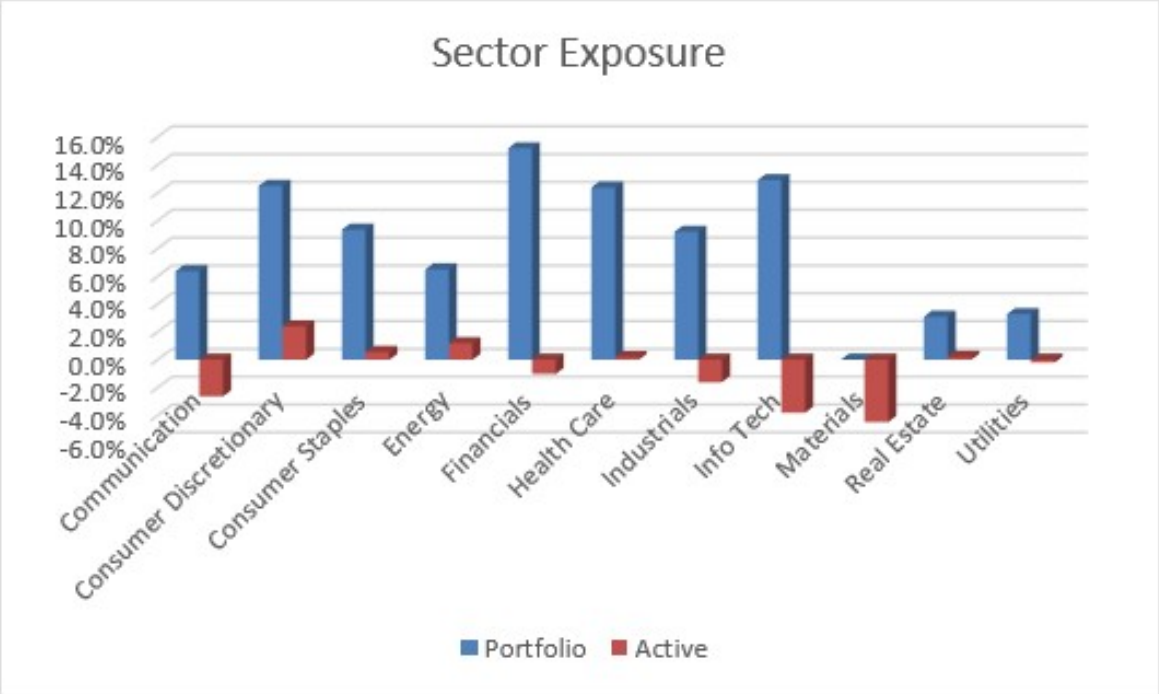
through the balance of the year.

Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Class by sector included Information Technology (+442bps), Industrials (+346 bps) and Communication (+204 bps) while no sector had a negative contribution on an absolute basis. On a relative basis, positive return contributions from the Industrials, Real Estate, Communication, Information Technology, Utilities and Health Care sectors more than offset negative contributions from the Financials, Materials, Consumer Staples, Consumer Discretionary and Energy 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 Consumer Discretionary, Energy, Consumer Staples, Real Estate and Health Care sectors while slightly underweight the Materials, Information Technology, Communication, Industrials, Financials and Utilities sectors. After the market whipsaw over the past two months, we have reduced the impact of sector allocation decisions on the portfolio while we await clarity on interest rate policy and global trade negotiations.



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Microsoft (+194 bps), Mastercard (+182 bps) and American Tower (+125 bps). Top detractors year-to-date included Anthem (-56 bps), Citigroup (-54 bps) and Chevron (-41 bps).

In September, our top performing investments included NIKE (+21 bps), NextEra (+18 bps) and ONEOK (+10 bps) while Canadian Pacific Railway (-26 bps), Walt Disney (-19 bps) and Visa (-19 bps) underperformed.

NIKE has been a phenomenal stock since late 2017, as the roll-out of the Company's direct-to-consumer (DTC) strategy gained traction. Despite fears of cannibalization and margin compression, management appear to have navigated the sales channel transition successfully, which has only enhanced NIKE's stature as one of the world's preeminent brands.

During September, investors were cautiously positioned ahead of the release of NIKE's Q1 2020 financial results, given the Company's exposure to China and the potential for fallout from the US-China trade war. However, concerns were misplaced and the Company easily surpassed expectations when financial and operating results were reported on September 24. Revenue increased to $10.7 billion in the quarter, up 7% on a reported basis and 10% on a currency neutral basis. Revenue for the NIKE brand grew 10% on a currency neutral basis, led by 27% growth in Greater China, 13% growth in Asia Pacific & Latin America, 12% in Europe, Middle East & Africa and 4% in North America.

The successful sales channel transformation was validated with this set of results, as gross margin increased 150 bps to 45.7% on higher average selling prices and margin expansion at NIKE Direct. Moving to the bottom of the income statement, net income increased 25% to $1.4 billion and diluted earnings per share increased 28% to $0.86, beating estimates by $0.16, aided in part due to a 2% decline in shares outstanding. Specifically, in the first quarter, NIKE repurchased 11.9 million

shares for approximately $995 million as part of a four-year $15 billion buyback program, a testament to the Company's cash flow generation and solid balance sheet.

To maintain their competitive edge, management has focused on building customer relationships directly through various digital channels. Momentum is still accelerating, with digital sales growth of 42% and mobile NIKE App sales approaching triple-digit growth in the most recent quarter. We expect that NIKE's strong product innovation and industry-leading digital experiences will support peer-leading sales growth for the foreseeable future.

The Ninepoint Focused Global Dividend Class was concentrated in 30 positions as at September 30, 2019 with the top 10 holdings accounting for approximately 33.5% of the fund. Over the prior fiscal year, 29 out of our 30 holdings have announced a dividend increase, with an average hike of 15.8%. 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

[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 September 30, 2019; e) 2015 annual returns are from 11/25/15 to 12/31/15. The index is S&P GLOBAL 1200 TR (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

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