

July 2019

1H 2019 Market & Performance Update for Scheer Rowlett Concentrated Equity Strategy

Presented by

Robert Dionne

Vice President & Portfolio Manager, Scheer Rowlett & Associates –
Sub-Advisor to the Ninepoint Concentrated Canadian Equity Fund

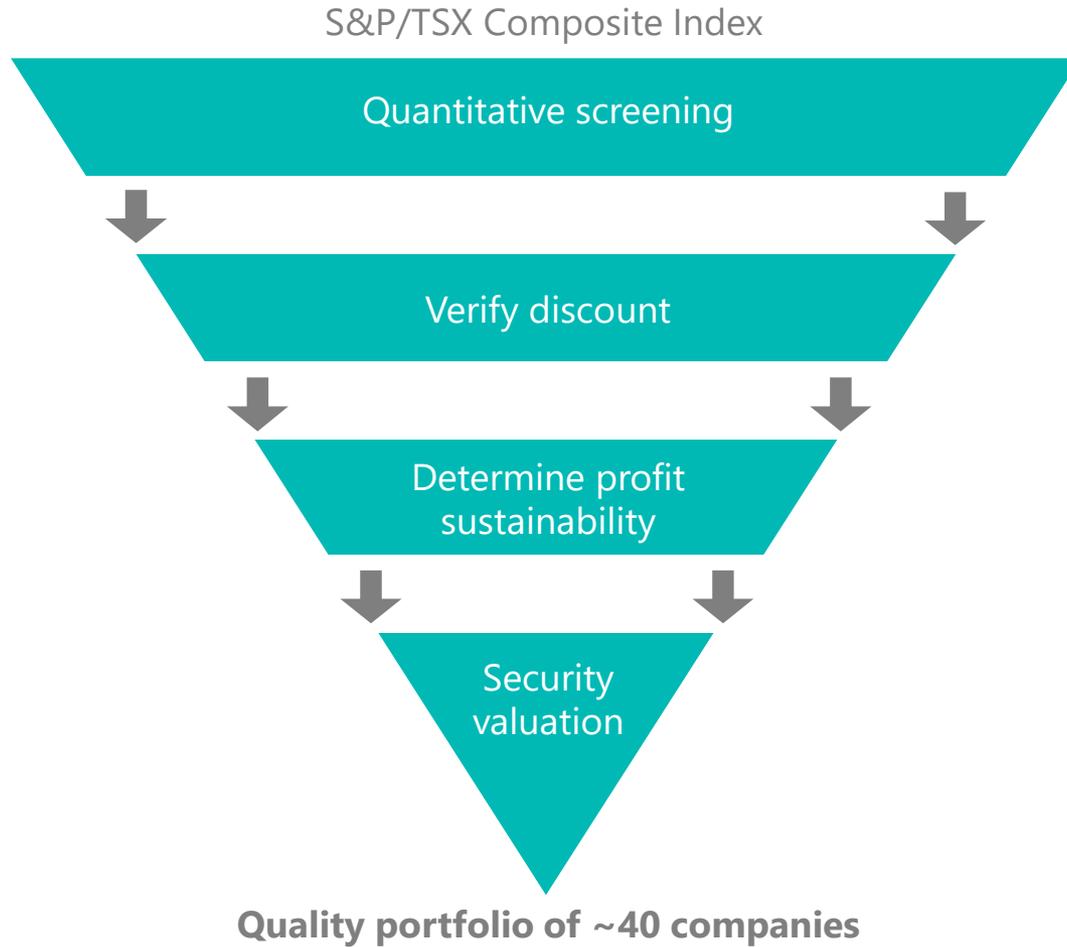


Presentation Agenda

- Scheer Rowlett Investment Approach
- 1H 2019 Review
- 2019 Portfolio Positioning

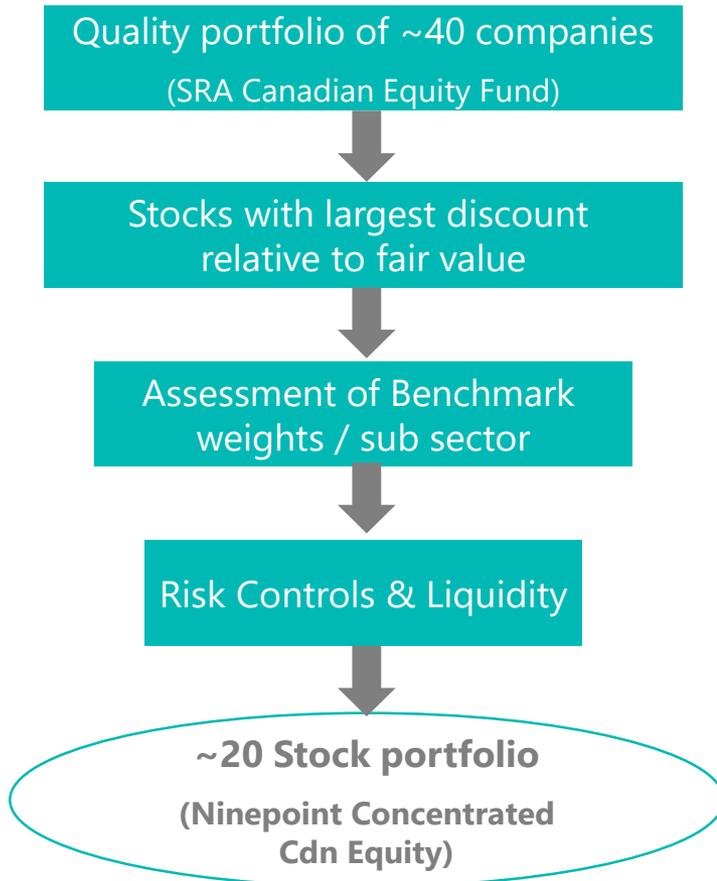
Scheer Rowlett Investment Process

Uncover value



Scheer Rowlett Concentrated Equity Portfolio Construction

Maximize value & diversity



Screening & Portfolio Construction:

1. Exclude positions that don't meet a minimum return threshold relative to our fair value
2. Increase weights of securities with the greatest upside potential (ie. "best ideas")
3. Apply minimum and maximum criteria to each name (min 3% – max 10% – max sector 50%)
4. Optimize (continuously) active bet relative to upside potential and overall portfolio weighted upside potential

Sell discipline:

1. Price has appreciated – less upside potential
2. Change in fundamental outlook – valuation reduced
3. More attractive opportunity emerges – optimize return relative to risk

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SRA Concentrated Value Strategy Performance

Please note that the following performance data relates to the Scheer Rowlett Concentrated Value Strategy. Information related to the Scheer Rowlett Concentrated Value Strategy is historic in nature and is not an indication of future returns. It is provided for illustrative purposes only.

Performance*:

- Strategy underperformed in 1H 2019; 12.0% versus 16.2% for the S&P/TSX.
- Since inception strategy has underperformed by 2.0% (4.8% absolute versus 6.8% for the S&P/TSX).

Expected outperformance:

- 4%+/year above S&P/TSX Index over a business cycle.

Attribution (last six months):

- Weak security selection primarily in Materials & Consumer Discretionary
- Outperformance in Industrials due to WestJet Airlines takeover offer
- No holdings in Information Technology (+44%) detracted from performance.

*Inception date June 27, 2017. Performance through June 30, 2019.

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What worked and didn't work in 1H 2019

	Worked	Didn't Work
Industrials	<ul style="list-style-type: none"> • <u>Westjet Airlines (+73%)</u> – Takeover offer from Onex at \$31 	
Materials	<ul style="list-style-type: none"> • <u>Detour Gold Corporation (+44%)</u> – Gold increased 10% in the period plus new CEO in place • <u>Lundin Mining (+29%)</u> – Copper flat – good acquisition using cash position 	<ul style="list-style-type: none"> • <u>Sherritt International (-57%)</u> – Nickel prices up 18% but exited due to risk concerns • <u>Methanex (-8%)</u> – Methanol down 5%; trading at an attractive valuation (<10x normalized earnings)
Energy	<ul style="list-style-type: none"> • <u>Crescent Point (+5%), Cenovus (+21%), Canadian Natural Resources (9%)</u> – WTI oil up 29% with Western Canada Select up 51% 	<ul style="list-style-type: none"> • Sector underweight in pipelines and midstream (subsector increased 22%)
Consumer Disc.	<ul style="list-style-type: none"> • <u>Magna International (+7%)</u> – stock declined adding value as we didn't own, then rebounded after purchasing in mid-May (post Q1 results) 	<ul style="list-style-type: none"> • <u>UniSelect (-35%)</u> – Restructuring U.S. operation an/or looking for strategic sale; new CEO; believe fundamental value exists but margins are being squeezed
Financials	<ul style="list-style-type: none"> • <u>Element Fleet Management (+40%)</u> – Solid beat on Q1 results and improved guidance • <u>CI Financial (+26%)</u> - Rebounding markets and ongoing buyback of shares 	<ul style="list-style-type: none"> • <u>CIBC (+4%) & Bank of Nova Scotia (+6%)</u> – Lagged the banking subsector (+12%) and Financials (+14%)
Information Tech.		<ul style="list-style-type: none"> • Sector Underweight as sector (+44%) as SHOP has doubled YTD

Source: Connor, Clark & Lunn Financial Group.

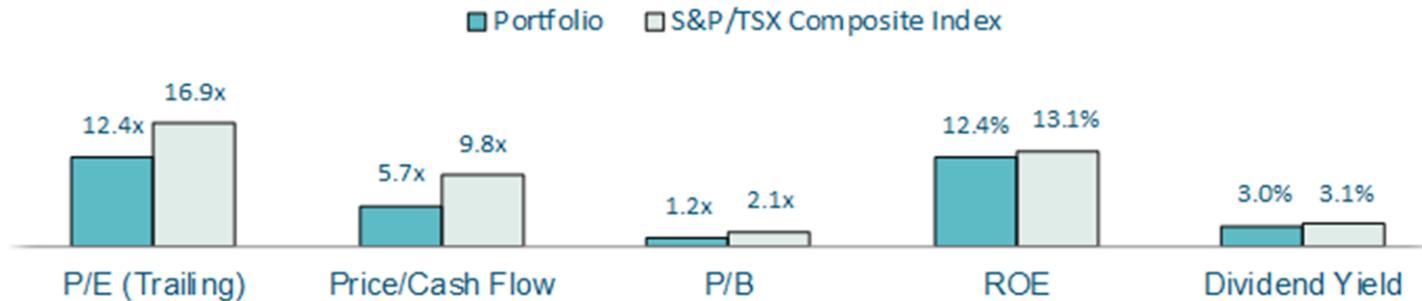
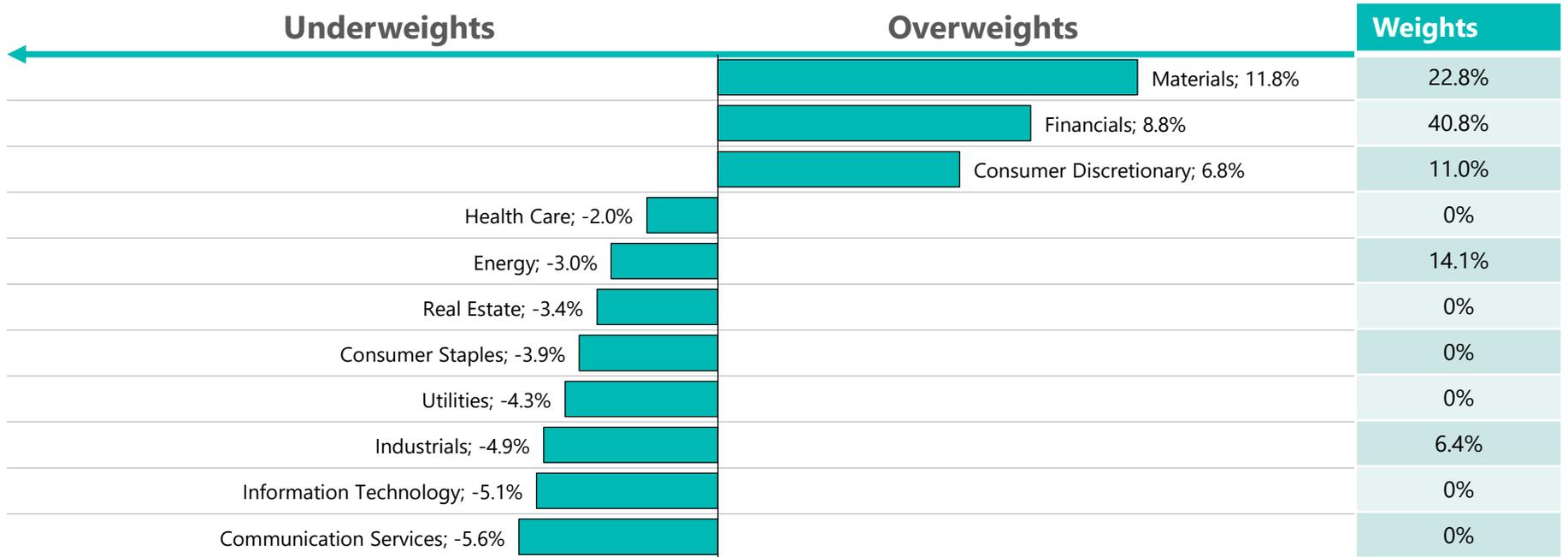
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Portfolio Sector Positioning (as at June 30, 2019)



Source: Connor, Clark & Lunn Financial Group.

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SRA Concentrated Value Strategy Holdings (as at June 30, 2019)

Risk:

- Active share is ~74%
- Tracking error is 7.4%; within the expected range of 6-8%

Top 10 Active Positions (vs S&P/TSX)

	Portfolio Weight (%)	*Benchmark Weight (%)	Over/ Under (%)
Canfor Corp. New in Q2 2019	3.9%	0.0%	3.9%
Methanex Corp.	3.9%	0.2%	3.7%
Sleep Country Canada New in Q1 2019	3.7%	0.0%	3.7%
Major Drilling Group Intl	3.7%	0.0%	3.7%
Detour Gold Corp.	3.8%	0.1%	3.6%
Lundin Mining	3.7%	0.2%	3.5%
Magna International Inc. Class A New in Q2 2019	4.3%	0.8%	3.5%
Canadian Imperial Bank of Commerce	5.3%	2.0%	3.3%
CI Financial Corp.	3.5%	0.2%	3.3%
Teck Resources Ltd.	3.8%	0.6%	3.2%
Total	39.7%	4.3%	35.4%

*Benchmark: S&P/TSX Composite Index.

Source: Scheer Rowlett & Associates. Thomson Datastream, June 30 2019.

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Contact Information

Ninepoint Partners LP

Royal Bank Plaza, South Tower
200 Bay St. Suite 2700
Toronto, Ontario M5J 2J1

T: 416 943 6707

Toll free: 866 299 9906

F: 416 628 2397

Email: invest@ninepoint.com

Web: www.ninepoint.com

