Ninepoint Focused Global Dividend Class

December 2019 Commentary

Year-to-date to December 31, the Ninepoint Focused Global Dividend Class generated a total return of 18.36% compared to the S&P Global 1200 Index, which generated a total return of 21.74%. For the month, the Fund generated a total return of -0.98% while the Index generated a total return of 0.94%.

Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

After a difficult year in 2018, almost every major asset class rebounded strongly in 2019. Stocks rallied (both domestic and international), bonds rallied (both governments and corporates), real assets rallied (both real estate and infrastructure) and commodities rallied (both gold and oil). The broad-based strength in 2019 was directly related to the level of outright fear that gripped investors at the end of 2018, which pushed valuations to deeply depressed levels and created the oversold conditions necessary for a powerful recovery across the board.

Thankfully, fears related to a US Fed-induced recession, a worst-case scenario for US-China trade relations and a "hard-BREXIT" proved to be unfounded in 2019. In fact, the Fed abruptly pivoted early in the year, eventually cutting rates three times for a total of 75 basis points. The Fed also began buying short-term Treasuries in October at an initial pace of $60 billion per month thus injecting liquidity into the financial system. Further, US and China trade representatives managed to hammer out a "phase-one" trade deal (although an official document has yet to be signed as of writing). Essentially, the US agreed to roll-back previously implemented tariffs and postponed threatened tariffs on approximately $160 billion worth of Chinese-made consumer goods in exchange for purchases of American goods (primarily agricultural products) and some concessions regarding the protection of intellectual property rights. Finally, after winning a Conservative majority in the UK general election, Boris Johnson should now be able to deliver on the promise of a negotiated BREXIT without having to resort to crashing out of the European Union. Perhaps we did not get perfect outcomes but, taken together, the developments were certainly good enough to trigger an exceptional relief rally across asset classes.

We believe that the global economy can continue to work through what should turn out to be a mid-cycle correction. Central banks around the world have done their part by easing monetary conditions and some economic data points have shown early signs of stabilization and even recovery. Importantly, the JPMorgan Global Composite PMI has shown an improving trend since bottoming at 50.8 last October to reach 51.7 in December. Consistent with this trend, the IMF is calling for world economic growth to reaccelerate to 3.4% in 2020, after dipping to 3.0% in 2019 from 3.6% in 2018. Interest rates also appear to confirm the nascent recovery, with the rebound of the US 10-year bond yield (from a low of 1.43% in early September to just over 1.80% recently) and the steepening of the 2-year/10-year yield curve (from -4 bps in late-August to +35 bps by the end of December).

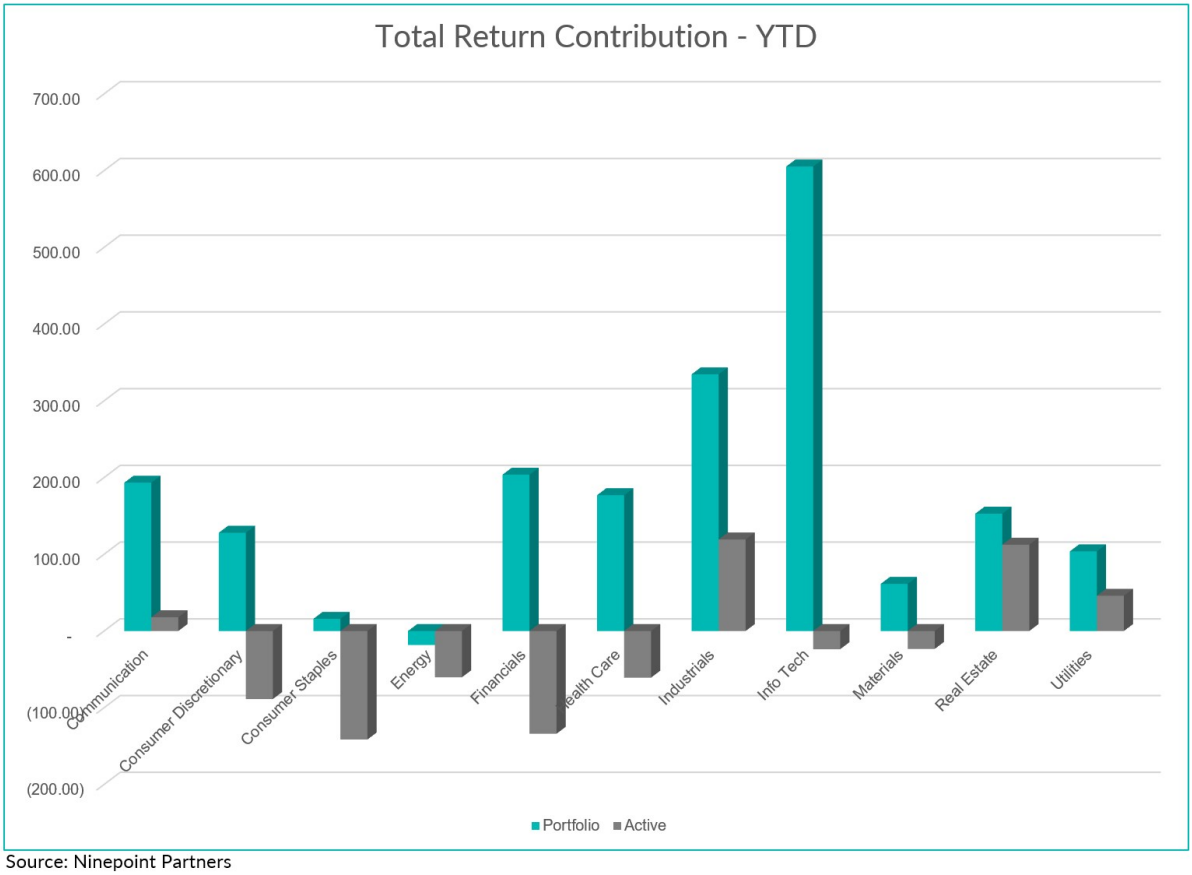
Although we acknowledge that many risks remain (geopolitical turmoil and the upcoming US

Presidential election quickly come to mind), today's environment looks relatively benign for investors, with some even calling for a "goldilocks" economy (characterized by low interest rates, low inflation and moderate growth). Currently, our biggest concern is valuation (making the market susceptible to a correction at any time) and we would point out that almost all the 2019 rally was driven by P/E multiple expansion as opposed to earnings growth, which remained relatively flat for the year.

Looking at the S&P 500 specifically, from a depressed 14x forward earnings estimates, the market rallied to more than 18x forward earnings estimates by the end of 2019, the upper end of historic valuation ranges. To realize material gains from here, we will need to see some combination of revenue growth, margin expansion and earnings growth in 2020. Thankfully, we continue to believe that if Trump's goal is to be re-elected next November, he will do everything in his power to protect the domestic economy, create jobs and bolster consumer confidence. If this scenario plays out, we would expect markets to grind higher through the balance of 2020.

Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Class by sector included Information Technology (+605 bps), Industrials (+335 bps) and Financials (+204 bps) while only the Energy sector had a negative contribution on an absolute basis (-18 bps).

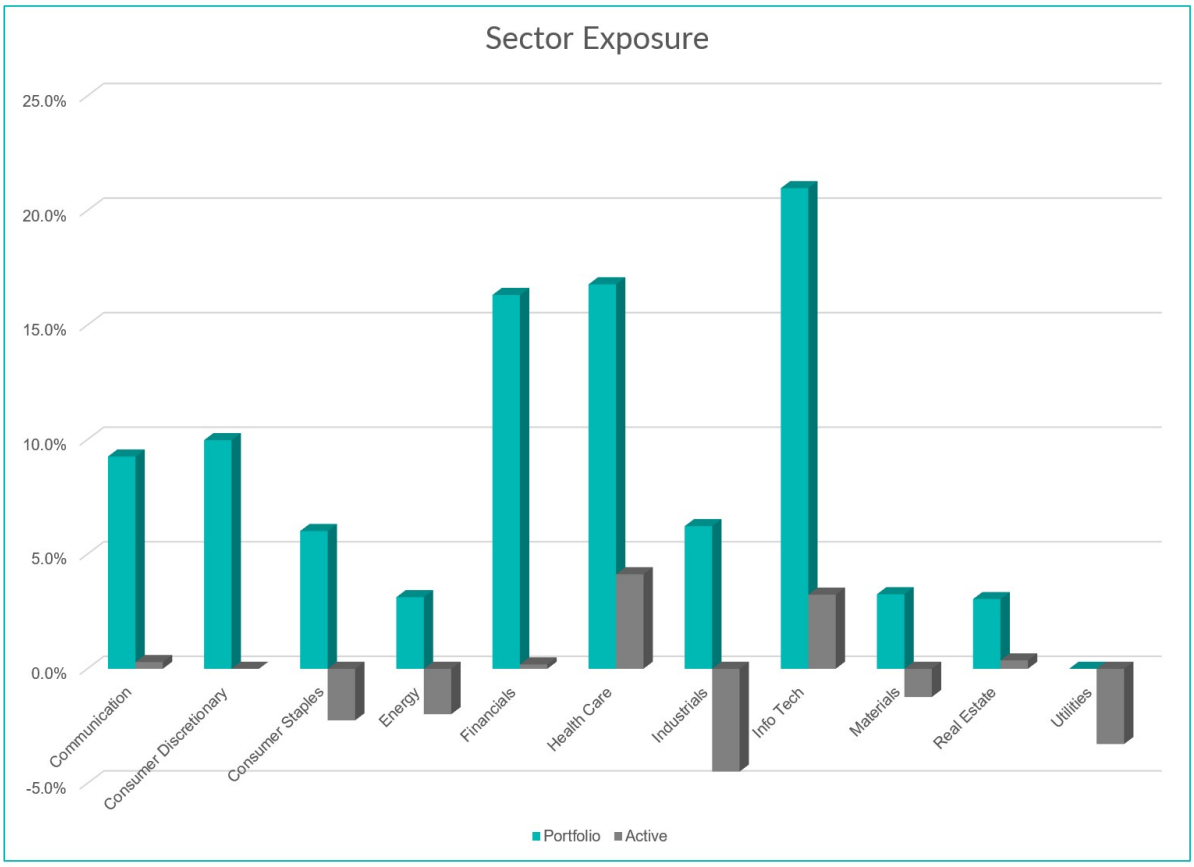
On a relative basis, positive return contributions from the Industrials, Real Estate, Utilities and Communication sectors couldn't quite offset negative contributions from the Consumer Staples, Financials, Consumer Discretionary, Health Care, Energy, Information Technology and Materials sectors.



Source: Ninepoint Partners

We are currently slightly overweight the Health Care and Information Technology sectors, while

slightly underweight the Industrials, Utilities, Consumer Staples, Energy and Materials 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 (+250 bps), Mastercard (+210 bps) and Brookfield Asset Management (+142 bps). Top detractors year-to-date included Anthem (-56 bps), Chevron (-54 bps) and Amazon (-39 bps).

In December, our top performing investments included VF Corporation (+22 bps), NIKE (+19 bps) and Citigroup (+13 bps) while BT Group (-24 bps), Keysight Technologies (-21 bps) and Disney (-21 bps) underperformed.

Since last August, the broad equity markets have whipsawed between dramatic outperformance of consensus over-weights linked to momentum factors (that have worked for years) and dramatic outperformance of consensus under-weights linked to value factors (that have been almost ignored for years). Using the respective S&P indexes as proxies, the S&P Momentum Index generated a total return of 2.16% while the S&P 500 Value Index generated a total return of 3.12% in December. The disparity is even more dramatic over the past three months, as the S&P Momentum Index generated a total return of 3.97% while the S&P 500 Value Index generated a total return of 9.93% (all in US dollar terms).

Whether or not this regime change persists into 2020 will likely depend upon the continued improvement in Global PMIs (especially the Global Manufacturing PMIs) and if the recovery stalls, leadership will likely flip-flop once again. Despite this 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 Ninepoint Focused Global Dividend Class was concentrated in 29 positions as at December 31, 2019 with the top 10 holdings accounting for approximately 35.4% of the fund. Over the prior fiscal year, 24 out of our 29 holdings have announced a dividend increase, with an average hike of 14.4%. 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 Partners

NINEPOINT FOCUSED GLOBAL DIVIDEND CLASS - COMPOUNDED RETURNS[1]
AS OF MARCH 31, 2020 (SERIES F NPP137)

	1M	YTD	3M	6M	1YR	3YR	INCEPTION
Fund	-8.0%	-11.6%	-11.6%	-10.2%	-4.8%	3.3%	3.8%
Index	-7.6%	-13.0%	-13.0%	-7.2%	-3.5%	4.9%	6.6%

[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 December 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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