Ninepoint Focused US Dividend Class

February 2019 Commentary

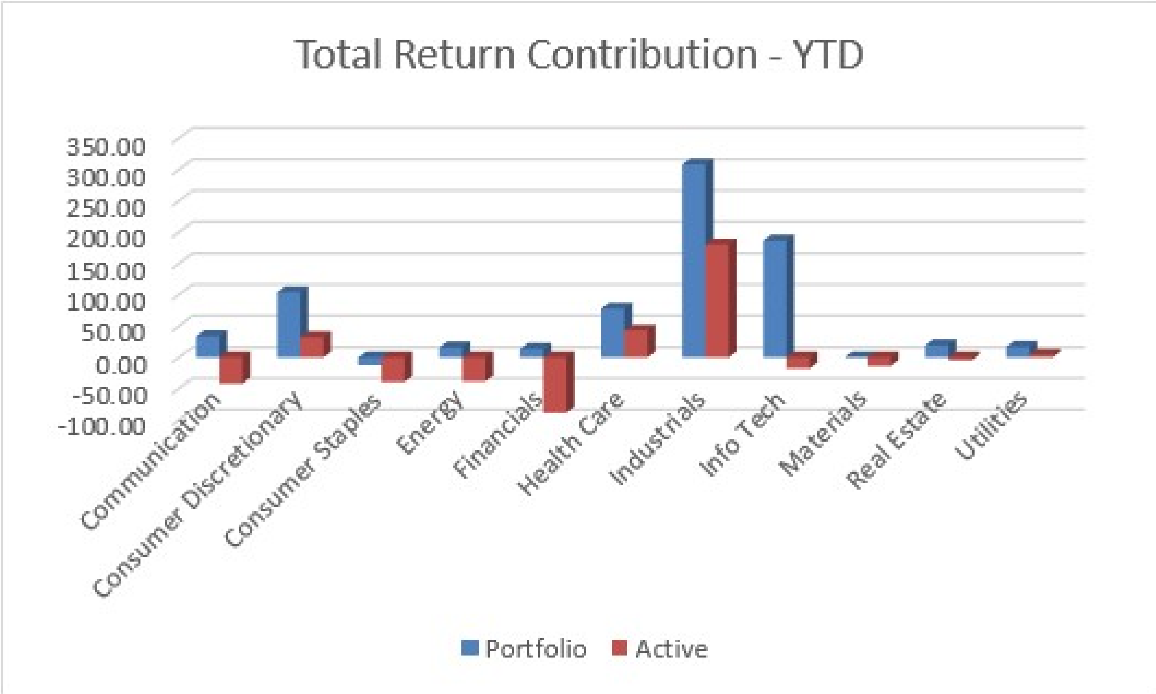
Investment Team

Jeff Sayer, CFA
Vice President, Portfolio Manager

Year-to-date to February 28, the Ninepoint Focused US Dividend Class generated a total return of 8.60% compared to the S&P 500 Index, which generated a total return of 7.50%. For the month, the Fund generated a total return of 3.66% while the Index generated a total return of 3.50%. After the worst stock market performance in December since 1931, markets rebounded sharply in January and continued to move higher in February.

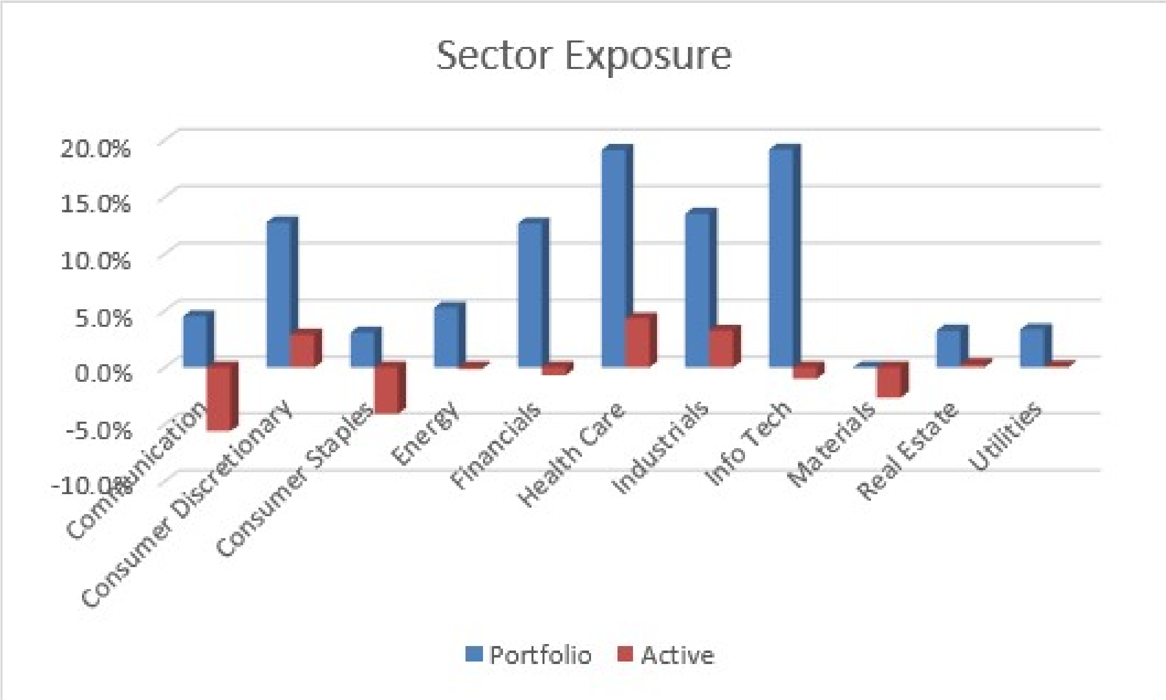
Year-to-date, the broad market rally has been primarily driven by multiple expansion as sentiment continued to improve and fear continued to dissipate. The Q4 earnings reports were reasonably positive and, with almost all the constituents of the S&P 500 having released results, earnings growth looks to have reached approximately 13% on a year-over-year basis. Expectations for the first quarter of 2019 are more muted, with earnings growth forecasted to decline slightly but investors will likely be more interested in the forward outlooks. Perhaps more importantly, global central banks have clearly pivoted to a more dovish monetary stance in response to slowing economic data and further rate hikes will be highly dependent on evidence that growth is reaccelerating. Finally, trade negotiations between the US and China seem to be progressing well, incremental tariffs have been postponed and most expect some sort of deal to be announced shortly.

Top contributors to the year-to-date performance of the Ninepoint Focused US Dividend Class by sector included Industrials (+309 bps), Information Technology (+187 bps) and Consumer Discretionary (+104 bps) while top detractors were limited to Consumer Staples (-12 bps).



Source: Ninepoint Partners

We are overweight the Health Care, Industrial and Consumer Discretionary sectors, while underweight the Communication Services, Consumer Staples and Materials sectors. We believe that one of the most important investment decisions that will have to be made in 2019 will be whether to pivot to “value” from “growth”. A weakening USD, a rising WTI crude oil price, a rising 10-year US bond yield and a steepening yield curve will likely be required before value outperforms growth for any sustainable length of time. However, if we do see all those conditions met in 2019 we expect to boost our exposure to the Financials and Energy sectors. If not, we expect to maintain our quality/defensive positioning.



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Boeing (+142 bps), Mastercard (+72 bps) and Union Pacific (+56 bps). Top detractors year-to-date included UnitedHealth Group (-29 bps), Intercontinental Exchange (-23 bps) and Boston Scientific (-22 bps).

For the month, our top performing investments included Boeing, Microsoft and CSX after each company reported solid operating and financial results toward the end of January and continued to power higher in February. Unfortunately, UnitedHeath Group (the managed health care company) came under pressure during the month after the Democrats introduced a “Medicare for All” bill in the House, which would theoretically move all eligible enrollees to a government run system and negatively impact profitability (note that this bill is unlikely to pass even in the event of a Democratic sweep in 2020 given the complexities involved).

The Ninepoint Focused US Dividend Class was concentrated in 25 positions as at February 28, 2019 with the top 10 holdings accounting for approximately 46.0% of the fund. Over the prior fiscal year, 22 out of our 25 holdings have announced a dividend increase, with an average hike of 10.4%. 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