Ninepoint Focused US Dividend Class

June 2018 Commentary

Investment Team

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Year-to-date to June 30, the Ninepoint Focused US Dividend Class generated a total return of 4.02% compared to the S&P 500 Index, which generated a total return of 7.29% in CAD.

Returns in the month of June were decent on an absolute basis but disappointing on a relative basis, with the Fund generating a total return of 0.47% while the benchmark generated a total return of 2.00%. As fears of a trade war intensified, the defensive Consumer Staples, Real Estate and Discretionary sectors led the market but we continue to believe that a full blown trade war will be averted.

Our modelling indicates that the Canadian dollar should continue to weaken in 2018. Because a resolution to the ongoing NAFTA negotiations is looking less likely in the near term, we have closed out our currency hedging, returning to a neutral positioning relative to our benchmark.

Top contributors to the year-to-date performance of the Ninepoint Focused US Dividend Class included Mastercard (+130 bps), Microsoft (+85 bps) and S&P Global (+84 bps). Top detractors year-to-date included Comcast (-55 bps), Brookfield Asset Management (-38 bps) and MGM Resorts (-38 bps).

Although we are underweight the Consumer Staples sector given various longer-term challenges facing the businesses, we hold a significant position in Costco Wholesale Corporation (COST US). Costco, with its membership-based business model, has thus far proven to be relatively immune from the threat of Amazon on the traditional bricks and mortar retail space.

Because the Company reports sales on a monthly basis, investors are able to see a reasonably real-time snapshot of Costco's topline growth. On June 6, the Company reported May net sales of $11.02 billion, an increase of 14.1% from the comparable period a year ago. Same store sales increased 11.7% in the US, 13.0% in Canada and 9.4% in the Other International geographic segment. Importantly, the Company's e-commerce segment is growing rapidly and posted 34.4% comparable sales growth in the month. All told, company-wide SSS increased 11.7% compared to estimates of a 7.8% increase.

With a loyal membership base (currently running at a 90% renewal rate) and membership fee revenue growth of approximately 14% in the most recently reported quarter, Costco has a unique advantage over many of its retail peers (and hence its classification as a Consumer Staple). With the recent agreement to accept Visa credit cards and an online presence that is gaining traction with its members, it is difficult to see what could derail the investment thesis. The only question is one of valuation, but we believe that the stock can maintain its valuation range of between 24x and 28x forward earnings as long as employment stays strong and consumer confidence remains high.

The Ninepoint Focused US Dividend Class was concentrated in 29 positions as at June 30, 2018 with

the top 10 holdings accounting for approximately 44.8% of the fund. Over the past year, 24 out of our 29 holdings have announced a dividend increase, with an average hike of 19.6%. 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