Ninepoint Focused Global Dividend Fund

May 2022 Commentary

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Vice President, Portfolio Manager

Year-to-date to May 31, the Ninepoint Focused Global Dividend Fund generated a total return of -8.75% compared to the S&P Global 1200 Index, which generated a total return of -11.62%. For the month, the Fund generated a total return of 0.31% while the Index generated a total return of -0.46%.

Although the broad equity indexes finished the month relatively flat, it was a wild ride for investors. The markets essentially "V-shaped" through May, with a sharp selloff over the first few weeks followed by a rebound into month end. At the May 20th intraday low of 3,810 on the S&P 500 (down approximately 20% from all-time highs to 16.5x 2022 consensus estimates and 15.25x consensus 2023 estimates according to Refinitiv), fear regarding an impending stagflation or recession scenario was palpable. Thankfully, the combination of some relatively soothing Fed speeches and a valuation reset led to more constructive investor behaviour, which allowed the relief rally to take hold. Unfortunately, whether the bounce is more than just a bear market rally remains to be seen.

As has been the case all year, investors have been fixated on inflation and the ensuing path of future interest rate hikes. The most recent CPI print (for April but released on May 11th) showed an increase of 8.3% over the last twelve months and 6.2% over the last twelve months excluding food and energy, indicating a slight deceleration relative to the March data. However, the details of the report did nothing to alleviate concerns that the drivers of inflation are more "sticky" than initially thought. So, after the Fed's 50 bps interest rate hike on May 4th to a new range of 0.75% to 1.00%, we still expect 50 bps hikes in both June and July. Further, the futures curve is pricing in hikes at the September, November and December FOMC meetings, implying a Fed funds rate of approximately 2.75% to 3.0% by December. We think this could prove to be excessively hawkish, but most investors are unwilling to temper their outlook until they can see clear evidence that inflation is moderating.

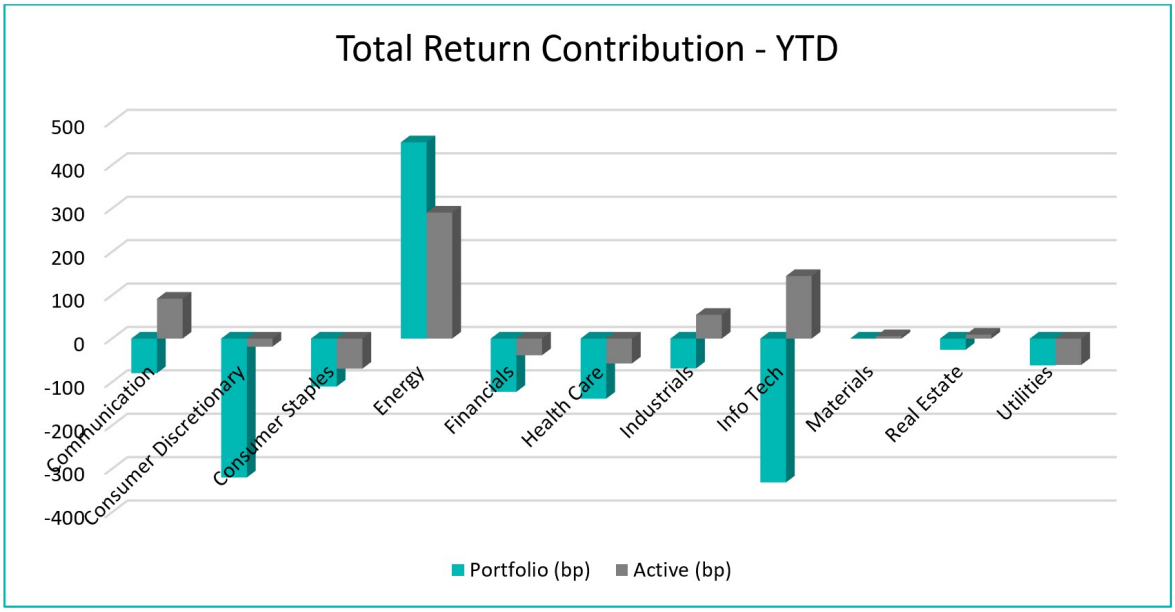
Although most of the year-to-date decline could be attributed to multiple compression due to rising interest rates, investors have now started to question forward earnings expectations. Surprisingly, consensus estimates have been reasonably stable around $230 for 2022 and $250 for 2023, but the threat of margin compression does pose a credible risk going forward. If businesses are unable or unwilling to pass along higher wages, raw material costs and freight rates, we could potentially see these forecasts shift lower. Theoretically, if we do see a challenging Q2 earnings season with materially lower guidance for the second half of 2022, we could experience a negative earnings revision phase of the market selloff/correction. Conversely, if management teams sound confident regarding their guidance, we may have already seen the lows for the year.

In the meantime, we continue to rely on prior comparable periods to guide our investment decisions, which suggest that if the inflation data shows some signs of moderating, the economic data remains relatively robust and the pace of interest rate hikes & quantitative tightening slows

relative to market expectations, the equity markets can resume an upward trend. Although investors should expect continued volatility amid a challenging investment environment, if the Fed can achieve its "soft or softish-landing" goal, the broad markets could prove to be more resilient than feared at the depths of the correction. In keeping with our mandates, we are concentrating our efforts on free cash flow positive, high quality, dividend growth companies and real asset investments given our positive assessment of the risk/reward outlook over the next two to three years.

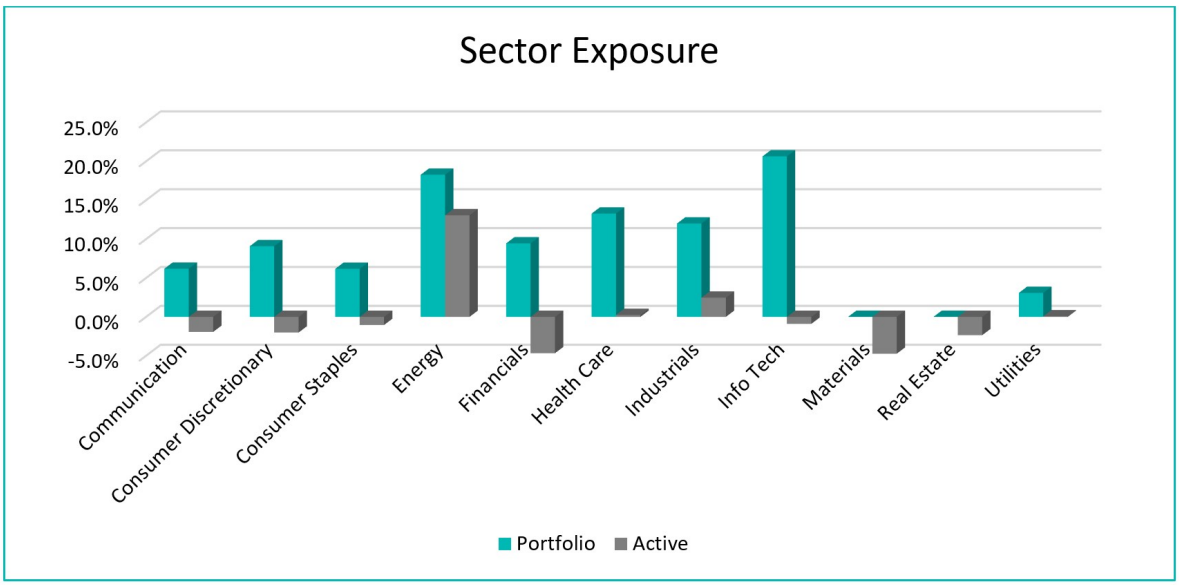
Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Fund by sector included only Energy (+465 bps) while top detractors by sector included Information Technology (-331 bps), Consumer Discretionary (-313 bps) and Health Care (-138 bps) on an absolute basis.

On a relative basis, positive return contributions from the Energy (+303 bps), Information Technology (+144 bps) and Communication (+95 bps) sectors were offset by negative contributions from the Consumer Staples (-69 bps), Utilities (-61 bps) and Health Care (-57 bps) sectors.



Source: Ninepoint Partners

We are currently overweight the Energy, Industrials and Health Care sectors, while underweight the Materials, Financials and Real Estate sectors. With investor sentiment deteriorating, we remain focused on high quality, dividend growers that have been able to demonstrate pricing power and cost control (thus protecting margins and future earnings). Currently, the Energy sector has the best outlook in terms of positive earnings revisions and dividend growth, and therefore we remain significantly overweight. Although we continue to believe that it is too early to position completely defensively in anticipation of an economic downturn, we are watching the incoming data closely for signs that growth has stalled.



Source: Ninepoint Partners

The Ninepoint Focused Global Dividend Fund was concentrated in 30 positions as at May 31, 2022 with the top 10 holdings accounting for approximately 37.2% of the fund. Over the prior fiscal year, 22 out of our 30 holdings have announced a dividend increase, with an average hike of 349.2% (median hike of 6.8%). We will continue to apply a disciplined investment process, balancing various quality and valuation metrics, in an effort to generate solid risk-adjusted returns.

Jeffery Sayer, CFA
Ninepoint Partners

NINEPOINT FOCUSED GLOBAL DIVIDEND FUND - COMPOUNDED RETURNS[1] AS OF JUNE 30, 2023 (SERIES F NPP964) | INCEPTION DATE: NOVEMBER 25, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	2.2%	6.6%	4.0%	6.6%	14.2%	7.7%	6.4%	7.0%
S&P Global 1200 TR (CAD)	3.1%	12.4%	4.5%	12.4%	21.7%	11.6%	9.7%	10.1%

[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 May 31, 2022; 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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