Ninepoint Focused Global Dividend Fund

September 2023 Commentary

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Summary

- Ninepoint Focused Global Dividend Fund had a YTD return of 6.07% as of September 30, trailing the S&P Global 1200 Index, which had a YTD return of 10.63%.
- In September, the Fund generated a total return of -3.43% while the Index generated a total return of -4.40%.
- September saw a decline in stock markets, with S&P 500 TR dropping by -4.8% and NASDAQ Composite by -5.8%, primarily due to a spike in the US 10-year bond yield to 4.69%, leading to P/E multiple compression.
- The Energy sector was the only gainer during the month, while interest rate-sensitive sectors like Real Estate and Utilities underperformed. We are currently overweight the Energy, Health Care and Consumer Staples sectors, while underweight the Materials, Communication and Information Technology sectors.
- Macroeconomic variables, such as GDP growth, unemployment, and inflation, remain relatively stable despite market turbulence.
- Investors are looking to the Q3 earnings season for clues, with consensus estimates suggesting a potential return to positive earnings growth.
- The fund was concentrated in 28 positions. Over the prior fiscal year, 20 out of our 28 holdings have announced a dividend increase, with an average hike of 8.4% (median hike of 7.7%).

Monthly Update

Year-to-date to September 30, the Ninepoint Focused Global Dividend Fund generated a total return of 6.07% compared to the S&P Global 1200 Index, which generated a total return of 10.63%. For the month, the Fund generated a total return of -3.43% while the Index generated a total return of -4.40%.

Ninepoint Focused Global Dividend Fund - Compounded Returns[1] As of September 30, 2023 (Series F NPP964) | Inception Date: November 25, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	Inception
Fund	-3.4%	6.1%	-0.5%	3.5%	13.4%	5.0%	5.4%	6.7%
S&P Global 1200 TR (CAD)	-4.4%	10.6%	-1.6%	2.8%	20.6%	9.0%	8.6%	9.5%

After a mildly disappointing month in August for investors, September lived up to its nasty reputation. The S&P 500 TR dropped -4.8% and the NASDAQ Composite plunged -5.8%, led by declines in the year-to-date winners. The Energy sector was the sole gainer during the month, while the Information Technology and Consumer Discretionary sectors were notably weak. Like August, the primary culprit during the month of September was a spike in the US 10-year bond yield to 4.69% (reaching a new 15-year high), which is generally correlated to P/E multiple compression. Unsurprisingly, traditionally interest rate-sensitive sectors underperformed, with the Real Estate and Utilities sectors posting very disappointing returns.

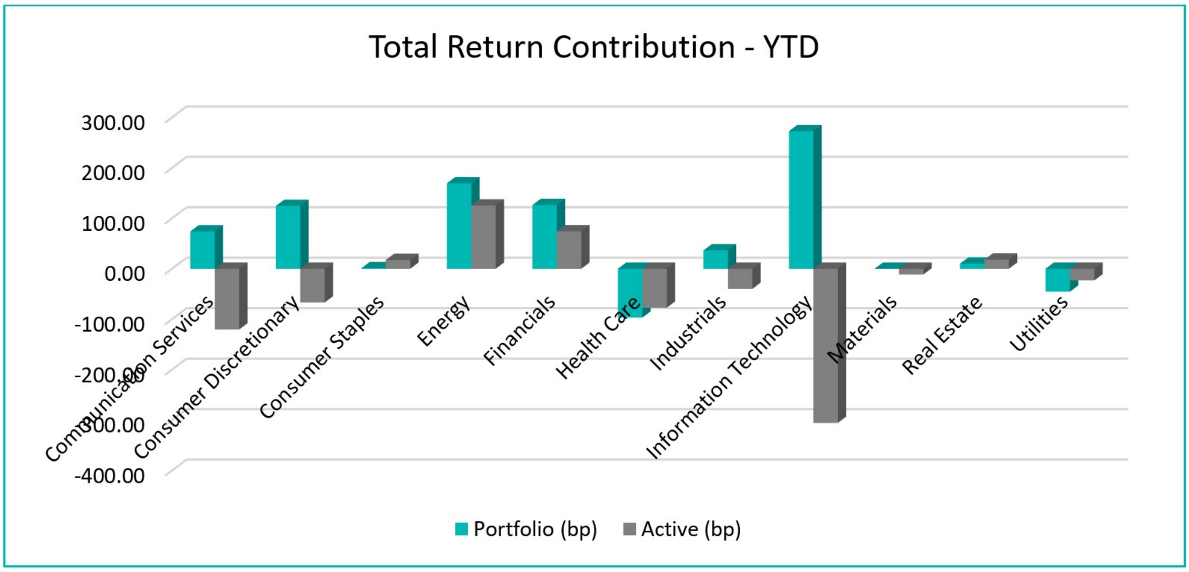
In last month's commentary, we discussed some of the drivers behind the sharp move higher in yields around the world, which included the announcement from the Bank of Japan shifting monetary policy away from strict yield curve control, the Fitch Ratings downgrade of US sovereign debt from AAA to AA+ and the tough talk on inflation from Chairman Powell and various other Fed speakers. In September, we could add the fear over the looming threat of a US government shutdown (which thankfully was pushed out by at least forty-five days with a last-minute stopgap bill) and the move in the price of crude oil above $90 per barrel (which fueled concerns of resurgent inflation). But with growth remaining resilient (the third estimate of US Q2 GDP came in at 2.1%), unemployment staying relatively low and stable (at 3.8% in August) and the most recent PCE (the Fed's key measure of inflation) coming in slightly cooler than expected (at 0.4% MoM versus 0.5% expected and Core PCE at 0.1% MoM versus 0.2% expected), the recent move in rates looks way overdone.

Outside of macroeconomic variables, the outlook for the remainder of the year will likely depend on earnings, and investors will soon turn their attention to the Q3 reporting season. In Q2, the operating and financial results were much better than originally feared, with earnings coming in at -4.1%, compared to initial expectations for a decline of somewhere between -8% and -9%, according to FactSet. Current consensus estimates imply a decline of only -0.1%, marking the fourth straight quarter of negative year-over-year growth but a return to positive earnings growth is within the realm of possibility. In fact, eight out of the eleven S&P 500 sectors are expected to report positive year-over-year earnings growth and ranked in order, including the Communication, Consumer Discretionary, Utilities, Financials, Industrials, Information Technology, Real Estate and Consumer Staples sectors. In this environment, we are searching for companies that have been able to post solid earnings growth but still trade at acceptable valuations. Dividend growth companies and real asset strategies look poised to benefit from any rotation out of the high-multiple, technology winners of 2023 should interest rates stabilize.

In an environment of moderating inflation but slowing economic growth through 2023 and into 2024, the most important drivers of investment performance will likely be valuation, balance sheet strength and the ability to consistently generate cash flow and earnings. As interest rates stabilize, a rotation into high quality, dividend growers would result in better relative performance from our strategies going forward. 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.

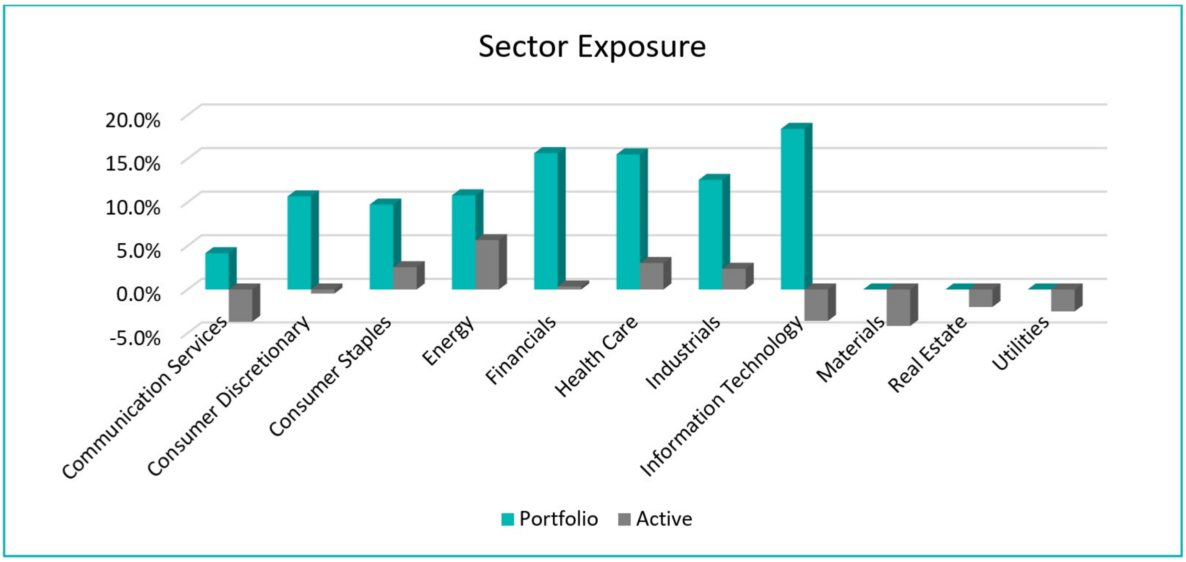
Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Fund by sector included Information Technology (+273 bps), Energy (+169 bps) and Financials (+126 bps), while top detractors by sector included Health Care (-97 bps) and Utilities (-45 bps) on an absolute basis.

On a relative basis, positive return contributions from the Energy (+125 bps), Financials (+74 bps) and Real Estate (+18 bps) sectors were offset by negative contributions from the Information Technology (-305 bps), Communication (-120 bps) and Health Care (-77 bps) sectors.



Source: Ninepoint Partners

We are currently overweight the Energy, Health Care and Consumer Staples sectors, while underweight the Materials, Communication and Information Technology sectors. With the probability of a future interest rate hike below 50% for each of the two remaining FOMC meetings in 2023 according to Refinitiv, interest rate hikes are likely done for the cycle. While we are cognizant of the lagged impact of 525 basis points of monetary tightening since March 2022, we think the rapid spike in the US 10-year bond yields is overdone. We remain focused on high quality, dividend payers that have demonstrated the ability to consistently generate revenue and earnings growth through the cycle.



Source: Ninepoint Partners

The Ninepoint Focused Global Dividend Fund was concentrated in 28 positions as at September 30, 2023 with the top 10 holdings accounting for approximately 41.4% of the fund. Over the prior fiscal year, 20 out of our 28 holdings have announced a dividend increase, with an average hike of 8.4% (median hike of 7.7%). 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

[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 September 30, 2023; 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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