Gold & Precious Minerals

January 2018 Commentary

Investment Team

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During the period from February 1 to February 8, the S&P 500 declined 8.50%, the Dow Jones dropped 8.8% and the TSX Composite suffered a decline of 5.0% as volatility came home to roost. As one of the calmest periods for equities came to a sudden end in February, the VIX Index rose from a benign reading of 13.33 on February 1st to an intraday high of 50.30 on February 6th. Correlation among various industry sub-groups in the equity space moved up just as quickly, resulting in a uniform sell-off across all industry groups. Almost shockingly, bond yields, as measured by the US 10 year treasuries, continued to rise during this tumultuous period, resulting in a continued decline in bond prices, leaving virtually no shelter for investors who spread their risk across equities and bonds. In short, what we saw transpire over the first week of February was a paradigm shift, which is forcing investors to rethink how to manage risk in their portfolios.

While the gold price has continued to rise both in USD and CAD terms over the past two years, it has failed to attract investors who saw better returns in the general equity markets, bonds, and even cryptocurrencies. However, following the latest episode of volatility and wealth destruction, we are beginning to see investors once again position into gold, which has again proven to be a reliable store of value. Amid the sea of volatility, gold managed to hold relatively steady, across a basket of major currencies and more importantly, staying in the green for 2018. While gold equities did sell down during the first week of February, in a kneejerk response to falling equity prices, we expect them to recover and rise above their 2018 highs as fundamentals reassert themselves.

For the month of January, the Sprott Gold and Precious Minerals Fund lost 3.00% (Series F) versus the TSX Global Gold Index, which declined by 0.49% in the same period. The top performers for the fund were Primero Mining Corp, Northern Empire and West African Resources. Primero Mining received a friendly takeover offer by First Majestic. While the shares of Primero represented a poor long-term investment to us, we had accumulated a sizeable position in the funds convertible bonds, which were trading at distressed levels and stood above the equity holders. Following the takeover offer, the convertible bonds rose by 41.69% in the month of January and helped add 60 bps of positive performance to our portfolio. Northern Empire rose 31.95% in the month of January on the back of exciting drilling data at their Sterling deposit and helped add 34 bps of positive performance to the portfolio. In a similar vein, West African Resources continued to demonstrate strong drilling results at their M1 deposit in Burkina Faso. Recently, exploration companies have tended to perform better as of late, as new discoveries continue to dwindle and exciting exploration results have been warmly received by investors.

The top three detractors for the month of January were Pretium Resources, Roxgold Mining, and Endeavour Gold Mining. Pretium Resources suffered a steep drop in its share price as its quarterly update fell short of expectations. While the ramp up at its Brucejack projects continues to go well in

terms of tonned mined and milled, the ore grade has fallen significantly short of expectations. The miss resulted in a 39.95% decline for the shares and detracted 165 bps from the portfolio. Roxgold Mining reported its Q4 results which production beating estimates, however, its guidance for 2018 production was slightly lower than anticipated by investors. Shares fell by 20.48% in the month of January and cost the portfolio 68 bps. Roxgold has historically outperformed guidance and it continues to remain one of the cheapest names in our universe, so we remain confident in its long-term outlook. Endeavour Gold Mining fell 11.63% in the month of January and detracted 51 bps of performance from the portfolio. While the company continues to deliver operationally, the decline in share price was primarily attributable to an ill-timed offering of a convertible note, which the company marketed in late January.

As gold prices continue to appreciate, we continue to see a tremendous amount of value in precious metals equities. With the increase in volatility across virtually all asset classes, we expect gold and gold equities to regain their luster.

[1] All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at January 31, 2018; e) 2001 annual returns are from 11/15/01 to 12/31/01. The index is 100% S&P/TSX Global Gold Total Return Index and is computed by Ninepoint Partners LP based on publicly available index information.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: commodity risk; concentration risk; currency risk; cybersecurity risk; derivatives risk; exchange traded funds risk; foreign investment risk; inflation risk; liquidity risk; market risk; securities lending, repurchase and reverse repurchase transactions risk; series risk; short selling risk; small capitalization natural resource company risk; sub-advisor risk; substantial unitholder risk; tax risk; uninsured losses risk.