Ninepoint Gold & Precious Minerals Fund

June 2018 Commentary

Emerging market equities, bonds, currencies and commodities came up for sale in June, with crude oil, being one of the few areas of strength owing to geopolitical concerns surrounding Iran and Venezuela. Investor moves out of non-US assets, into US assets has been driven by a widely held belief that the United States provides relative safety versus economies who are more dependent on trade. As a result, US equities have remained resilient and we have seen a move into the US dollar. The move into the US dollar was negative for gold bullion, which saw its value fall by 3.54% in June while the Dollar Index rose by 0.52% in the same period.

Investment Team

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There are three reasons why gold performed so poorly in June. Investors have typically held gold bullion as a safe haven asset. Gold's performance in June frustrated investors as it failed to gain during a period of perceived adversity. Investors have become frustrated by gold's inability to overcome the price resistance level of US$1370/oz, which has held firm since gold broke its downtrend at the end of 2015.

Physical demand for gold is soft in June with the surge associated with the Chinese New Year in the rear-view while the large physical gold purchases associated with the Indian wedding season typically commences in July. The combination of these factors led short-term oriented investors in gold bullion to throw in the metaphorical towel in June. Investors in bullion ETFs also chose to reduce their holdings for the first time in the past three years in June. Speculative interest in gold futures also saw a marked decline as the open interest in gold at the end of June was at the lowest in three years. We find investor moves out of gold to be rather curious because the current tariffs on Canada, Mexico and China are best termed as "trade skirmishes", rather than a trade war. If the $200B tariffs on Chinese goods go ahead along with reciprocal tariffs, along with more two-way tariffs against the EU, Canada and other large trading nations, we will see this "trade skirmish" transition to a full-blown trade war. Throughout history, trade wars have been successful in creating inflation, uncertainty and ultimately crimping economic growth. With national debts in the US and abroad rising at rates typically seen during recessions and with rates grinding higher, the debt service ratios for many nations are rising. Introduce a global trade war to this mix and we find it very difficult to see a situation where precious metals perform poorly over the long run. We urge investors to strongly consider increasing their allocations into precious metals today.

In the face of soft gold prices, equities held their own. As we mentioned earlier, the decline in gold was primarily linked to the strength in the US dollar. A majority of gold operations are outside of the United States and these operations benefitted from the relative weakening of the local currencies. The bear market in gold has generally resulted in significantly improved efficiencies and operations for companies in the precious metals space. These companies are now better able to

withstand a 5-10% impact in metal prices without a large impact to their profitability. This helps explain the relative strength in the companies under our coverage.

The top three contributors to the fund performance in the month of June were Kirkland Lake Gold, Northern Star Resources and West African Resources. Kirkland Lake has continued to perform admirably over the past year as they have balanced strong operating results with exciting exploration success. In the month of June, Kirkland Lake hosted a site tour at its Macassa mine showcasing the operational improvements it has achieved over the last several years. The Company remains focused on achieving ~1 million ounces in annual production by 2022. Northern Star is one of the most disciplined producers of gold in Australia. The Company is profitably growing production while aggressively exploring for new ounces. West African completed an oversubscribed offering of $35M in May, which will help finance an underground decline at their Sanbrado project. In June the Company announced the Definitive Feasibility Study for Sanbrado, which demonstrated robust economics for a >200kozpa producer with targeted production in 2020.

The top three detractors to the fund performance were Hochschild Mining, Calidus Resources and Gascoyne Resources. Hochschild continued to be weak together with other London-listed miners and due to the British Pound selling off. The Company has operated in Peru since 1925, has high quality assets and management team, and we remain confident that the stock will re-rate with positive exploration results that demonstrate extension of Hochschild's mine lives. Calidus is an exploration company in Australia and announced the commencement of a 30,000m drilling programme at its key asset. Gascoyne is also based in Australia and has been building its Dalgaranga gold project: the Company announced first gold pour ahead of schedule and on budget.

The Gold and Precious Minerals Team

COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	3.1%	-17.4%	-9.3%	-11.9%	-13.8%	8.3%	2.6%	0.2%
Index	3.7%	-17.4%	-11.7%	-14.5%	-17.2%	7.0%	-1.4%	-1.1%

[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 June 29, 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.

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