Ninepoint Gold & Precious Minerals Fund

Q2 2020 Commentary

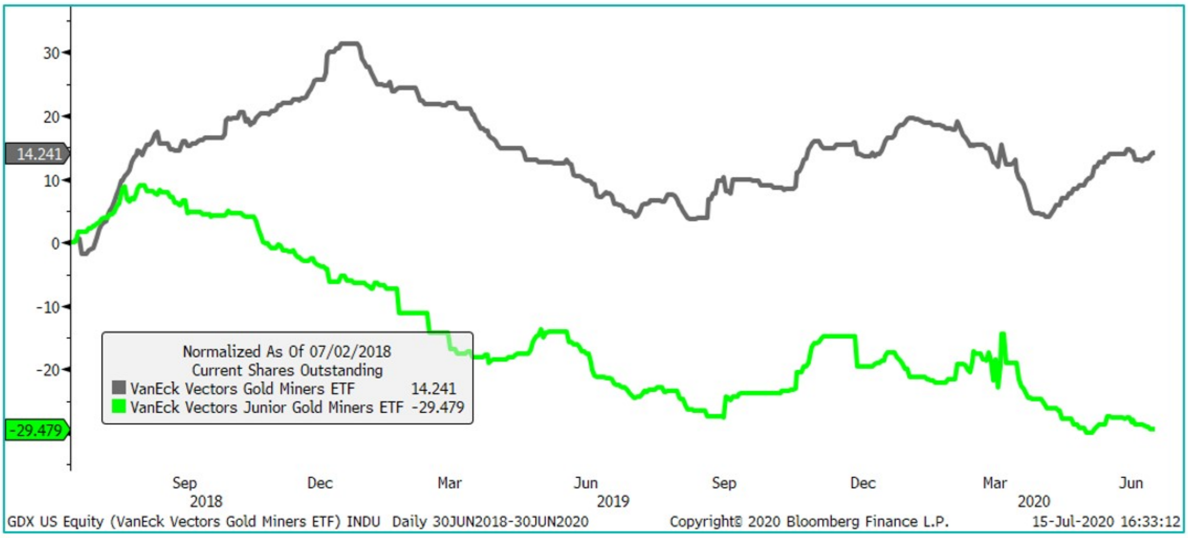
Investment Team

Ninepoint / Sprott,
Sub Advised by Sprott Asset Management (SAM)

The Ninepoint Gold and Precious Minerals Fund posted one of its strongest quarters since its inception, surging 75.87% during Q2 2020. In doing so, the Strategy completely wiped away its COVID-19 induced Q1 2020 slump. At the end of Q2 2020, the Strategy had gained 42.06% year-to-date through June 30, 2020. With the first half of 2020 in the rear-view mirror, we are also happy to report that the Strategy's portfolio positioning is beginning to yield increasingly positive results, which has helped improve the Strategy's performance markedly relative to its passive benchmarks. We continue to see immense upside for mid-tier precious metals producers as they play catch up to the valuations of their larger-cap counterparts.

In context of the market we currently find ourselves in, the amount of capital flowing into precious metal equities has been surprisingly low. We use the two largest precious metal mining ETFs as proxies. GDX, the larger-cap precious metal ETF has attracted flows that can best be described as tepid over the past two years while the GDXJ which is geared more towards small- and mid-cap companies has actually seen outflows. As illustrated by Figure 1, over the past two years, the outstanding GDX shares have increased by 14% while the GDXJ has actually lost almost 30% of its units.

Figure 1.



Similarly, actively managed precious metals strategies have failed to attract any meaningful inflows from investors despite posting exceptional three-year CAGRs. Capital flows into the precious metals space have remained stunted over the past couple of years, but thankfully they have not been volatile.

Over the past four quarters, we made a conscious decision to position our portfolio towards mid-tier producers which share the following three characteristics:

1) Strong after-tax operating profits and free cash flow
2) Robust pipeline of organic growth opportunities
3) Management teams that are financially aligned with shareholders

This move was predicated by our previous experiences as sector specialists. In the earlier stages of the bull market portfolio positioning is an important driver of alpha. The initial flows into a downtrodden sector typically target larger, more liquid companies. These initial capital flows can best be described as "probing ", because investors are cautiously trying to gauge the health of the sector. As investors gain confidence in the sector, the secondary flows, which tend to be larger and longer-term in nature target both the larger and the mid-tier portions of the sector. Valuations begin to matter as price discovery takes place. For a specialist portfolio manager, it is important to stay ahead of the curve not only to maximize alpha but to drive value creation that tends to occur during this price discovery phase. Our portfolio tilt towards the mid-tier producers with profitable operations, organic growth and strong balance sheets has paid off in 2020 as many of our top ten holdings have seen their share price appreciate by 40-60% through the first half of the year, in turn delivering strong alpha versus passive benchmarks.

Based on our work, we believe that we are in the early innings of this move. We continue to see strong upside in the mid-tier producers not only relative to large-cap producers, but also to the price of gold. In our previous commentary for Q1 2020, we had highlighted the 12% discount implied in gold producers relative to the price of gold. This discount remains in place, implying that investors continue to price gold equities as if gold were trading not at $1800/oz but at $1,600/oz. The reason why we believe that gold equities continue to discount lower gold prices can best be described by using the handy market cycle graphic we introduced in our Q3 2019 commentary. With capital flows being tepid, but mid-tier names starting to re-rate and small-cap exploration companies beginning to get financed, it appears to us that we are somewhere between the "disbelief" and "hope" phase of the cycle. As the cycle continues to mature, we will see equities begin to price in spot gold prices, or even higher than spot prices as optimism takes hold. For this to happen, we need to also start seeing steady inflows of capital into the precious metal mining space, something we haven't seen in over a decade.

With the second quarter in hindsight, the rewards of enduring the volatility are easy to see. However, we cannot conclude our quarterly update without thanking you, our clients and partners who have remained steadfastly with us through one of the most volatile periods ever encountered in the history of the US capital markets. Your continued trust drives and inspires us.

Maria Smirnova, Shree Kargutkar & Jason Mayer
Sprott Asset Management

NINEPOINT GOLD & PRECIOUS MINERALS FUND - COMPOUNDED RETURNS[1] AS OF JUNE 30, 2020 (SERIES F NPP300)

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEPTION
Fund	7.5%	42.1%	75.9%	42.1%	67.7%	18.0%	17.3%	1.1%	5.5%	4.5%
Index	5.4%	33.1%	47.1%	33.1%	58.4%	22.2%	19.1%	0.0%	4.7%	4.1%

[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 30, 2020; 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.

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