Ninepoint Gold & Precious Minerals Fund

Q2 2021 Commentary

Investment Team

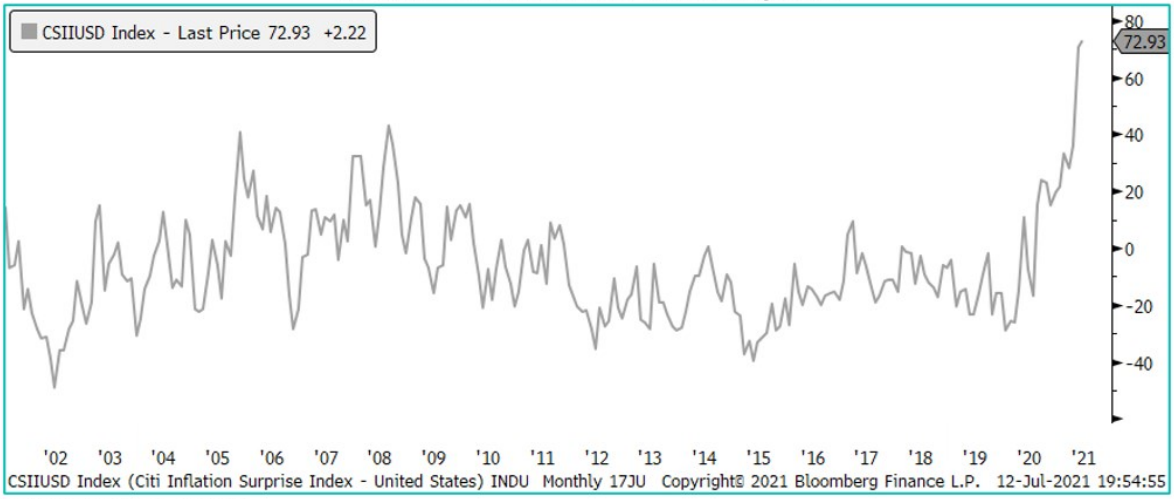
Ninepoint / Sprott,
Sub Advised by Sprott Asset Management (SAM)

The Ninepoint Gold and Precious Minerals Fund gained 5.89% for Class F in Q2-2021 as precious metal equities regained their strength after a difficult first quarter. Through the quarter, our portfolio strategy remained consistent and our conviction towards small and mid-sized mining and exploration companies is unchanged. Despite the day-to-day volatility, ultra loose economic and monetary policies continue to favour the precious metal complex. With valuation multiples for precious metal equities at or near historic lows, we continue to see potential for outsized returns in the precious metal sector.

The second quarter brought along a number of economic data points. With the "reopening" trade now well underway, economists and investors alike have been poring over economic releases in more detail than they would have previously. A thematic that has been ringing loudly since the start of 2021 has been that of inflation. Wages have been rising with workers weighing the cost-benefit of returning to work during the pandemic versus collecting unemployment benefits. Base metal prices are up thanks to insatiable Chinese imports. Gasoline prices are up as miles traveled have risen around the world. Lumber did its best to imitate gains seen in the crypto space the year prior. The price of coffee has moved higher and corn has gained a new moniker, "bitcorn", following its meteoric rise over the past year. Inflation isn't just back, its back with a bang.

The Citi Inflation Surprise Index for the United States helps paint the picture and provides perspective to the inflation shock we are experiencing:

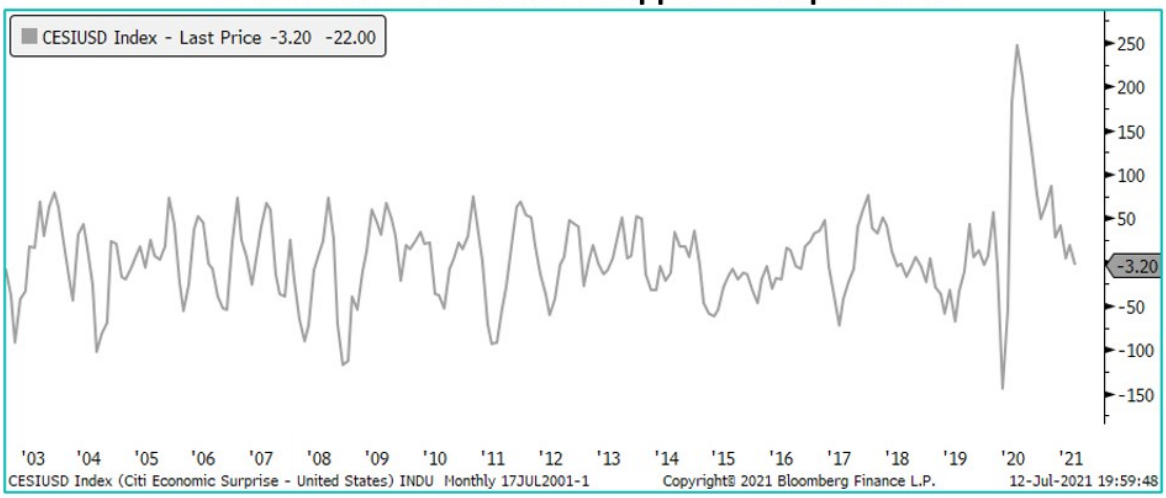
Inflation Has Shocked To The Upside



Source: Bloomberg, Citibank

While inflation has continued to surprise forecasters to the upside, the economy has disappointed, producing surprises of the negative kind. We saw a spectacular spike in the US GDP following the re-opening of the economy in 2020. However, the recent pace of economic growth and associated data has disappointed. As a result, economic data has surprised, but to the downside as the chart below shows.

US Economic Growth Has Disappointed Expectations



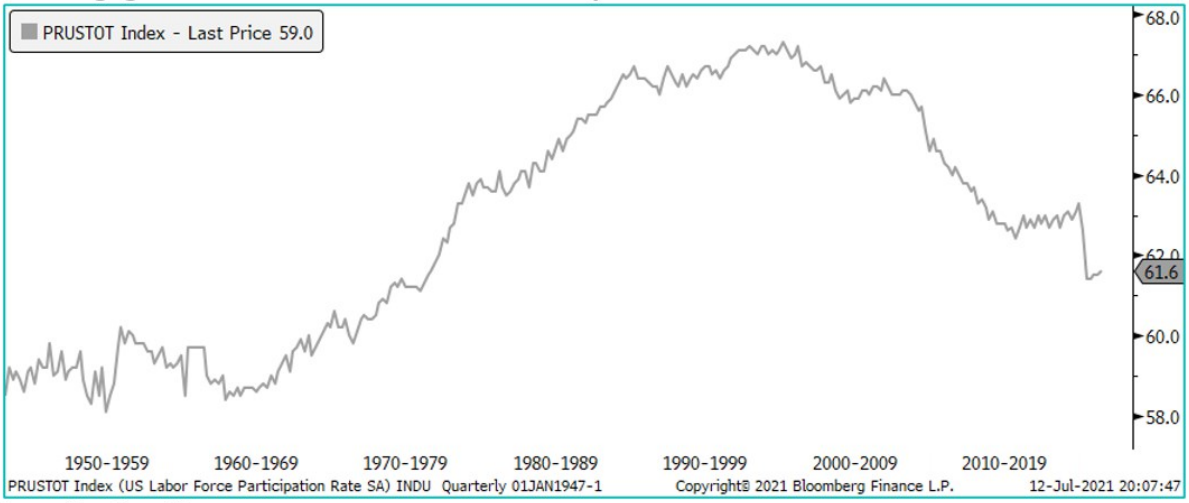
Source: Bloomberg, Citibank

Prior to the pandemic a majority of businesses had streamlined their supply chain for just-in-time deliveries. The streamlined supply chain reduced working capital needs for the business and allowed them to flex their inputs and outputs quickly to respond to changing demands for their goods and services. COVID-19 threw a wrench into this streamlined supply chain and logistics networks that had been built over decades. With various inputs now in short supply, businesses are struggling to acquire everything from raw materials to semiconductors to much needed labour to help put it all together. As a result, entire sectors from food services to retail to automotive are operating with reduced capacity.

At the end of May, a record 9.21M jobs in the U.S were unfilled. While job openings in the US are at a record high, labour force participation has sagged. Employers struggling to find employees are responding by raising wages to attract talent. However, despite the record number of job openings and rising wages, workers are choosing to sit out the pandemic while collecting unemployment benefits.

The resulting picture of labour force participation does not look pretty, languishing at levels not seen since the stagflationary era we saw in the 1970s.

Disengaged Workforce -Labour Force Participation Is At Levels Not Seen Since The 1970s



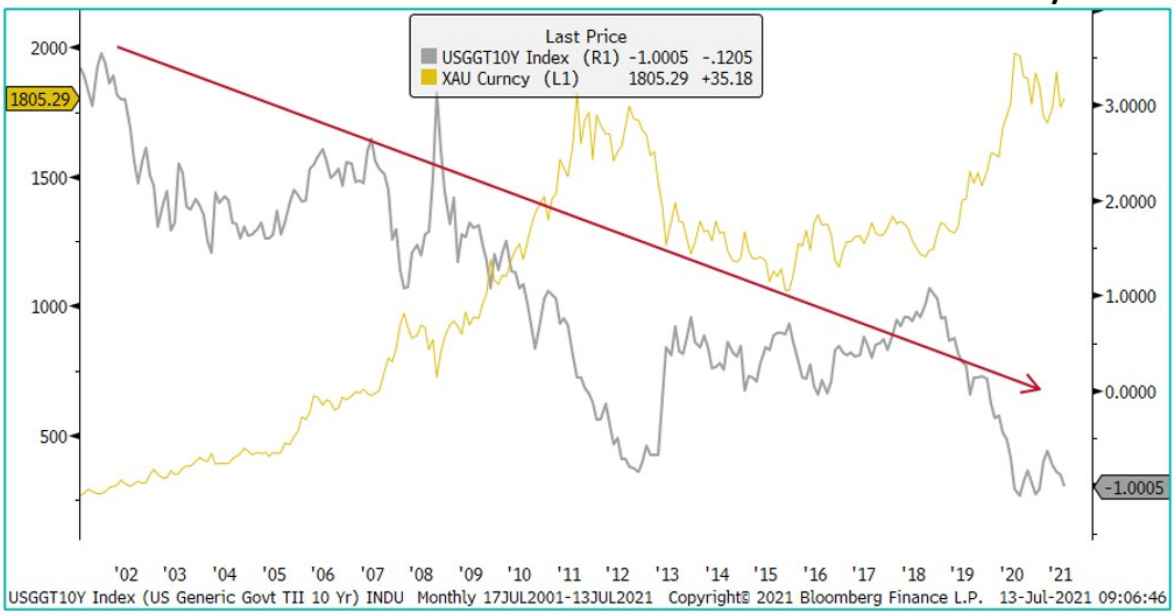
Source: Bloomberg, Citi

It is curious that labour force participation is sitting at the same levels as the 1970s because by our work, the next few years are likely to look a lot like they did back then. Through the 70s stagflationary era, unemployment levels were high, labour force participation was low and the economy was in a recession. The 1970s recession was caused by a cost-push inflation as higher input prices for goods, in particular, the price of crude, led to

higher prices of goods and services. Today, we are seeing higher input costs for a variety of raw materials translate to higher prices at the grocery store, at the pump and for a variety of finished goods – cost-push inflation at work.

Prior to Volcker taking over the helm, the US Fed kept the benchmark rates well below inflation leading to sustained periods of negative real interest rates. Gold and silver prices were among the biggest beneficiaries. The relationship between real rates and gold remains unbroken today. Rapid declines in real rates have resulted in spectacular moves upward for gold. We saw this from 2008-2011 and 2019-2020. The long-term trend in real yields is equally important. It has consistently headed lower and it will likely continue lower because the US economy would be unable to digest higher nominal rates any time soon.

Real Yields Headed Lower -Inverse Correlation of Real Yields and Gold is Firmly in Place

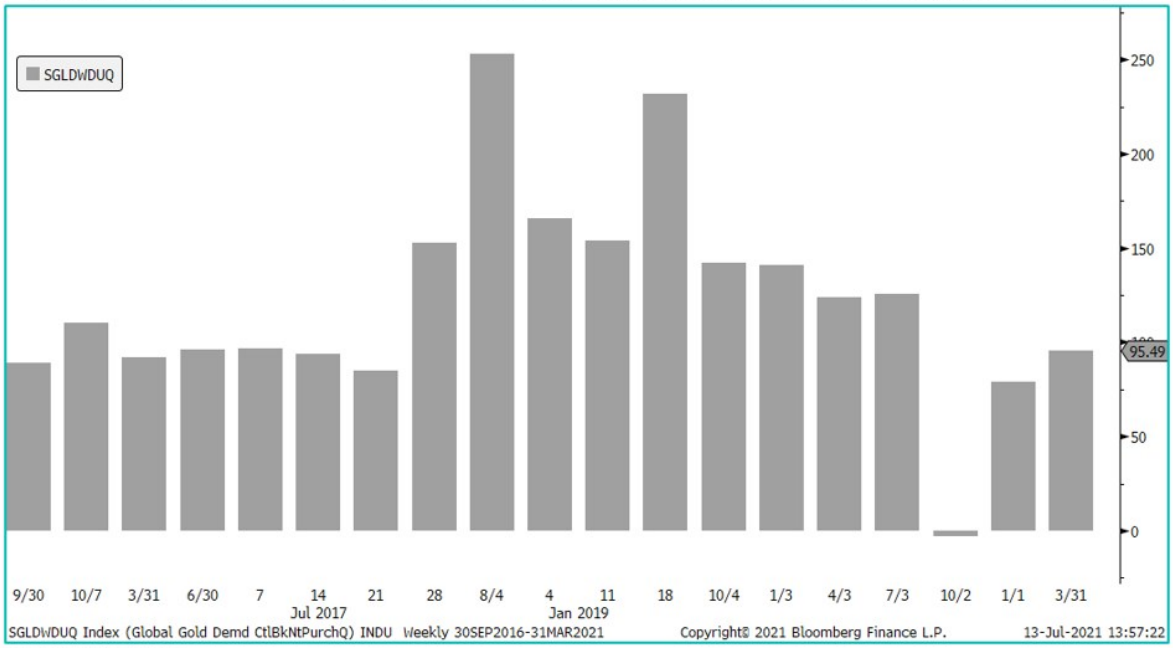


Source: Bloomberg

Our reasoning for why real negative yields are here to stay is simple. Over the course of the past decade, the trajectory of US debt has been firmly trending upward. The pace increased further during the previous presidential cycle as revenues fell due to tax cuts while expenditures continued to rise. Since the pandemic started, the debt trajectory has almost gone parabolic. When faced with rising debts and decreasing receipts, governments are faced with limited options. They can cut spending on big-ticket items such as defense, healthcare and social security to pay down debt. This is an unpalatable option to both Republicans and Democrats. They can attempt to grow their way out of the problem by attempting to stimulate their economy using fiscal measures. Finally, the government can create inflation by flooding the economy with money while maintaining negative real yields, thereby inflating the debt away. Negative real yields are an easier proposition politically and fiscally. The Fed simply has to pin the nominal yields both on the long and short end while inflation eats away at the real value of the debt.

This phenomenon of negative real yields is playing out in Canada, across the pond in countries across Europe, as well as many emerging markets. It is unsurprising that savers have begun shifting their assets out of fiat currencies into other perceived stores of value including art, real estate, cryptocurrencies and of course, gold and silver. Central banks around the world who took a pandemic hiatus from gold buying are once again starting to add to their bullion holdings, adding 95.5 tonnes in Q1-2021. In doing so, they are choosing to hold bullion which provides no yield over fiat currencies and related treasuries that are losing their purchasing power almost daily.

Central Banks Have Resumed Their Bullion Purchases After A Pandemic Pause



Source: Bloomberg

While the short term volatility associated with gold and silver may cause some angst amongst investors, the medium-term trend in both metals has been robust. It was only two years ago that gold and silver were trading near $1400/oz and $16/oz, respectively. Investing in precious metal equities has typically allowed investors to gain leveraged exposure to the moves in metal prices. Over the past two years, precious metal miners have been posting strong earnings growth, record margins and free cash flows over the past three years. Their balance sheets are strong and their operations remain lean as a result of enduring the most recent bear market in gold and silver. Curiously, investors have continued to play coy with the sector. In our earlier commentaries, we had pointed to the historically low valuation multiples we saw in the precious metal sector. While our strategies have yielded strong two and three year returns, most of these gains have been powered by earnings growth and not multiple growth. Of late, we have been heartened to see mining companies in our coverage universe continue their disciplined approach to shareholder returns. In addition to initiating share buybacks to take advantage of their low valuations, we are also seeing dividends being initiated and existing dividends being raised. Not only does the NYSE ARCA Gold Miners Index (GDM) trade at 50%+ discount to the S&P 500, but the dividend yield of the GDM is now 50% higher than that of the S&P 500.

The GDM's Dividend Yield Is Now 50% Higher Than The S&P500

Source: Bloomberg

The catalysts for the next leg upwards are in place. Balance sheets are strong. Capital allocation policies of precious metal miners will continue to attract new shareholders. The tailwinds helping gold and silver higher are structural and durable. Valuation multiples are near historic lows – but likely not for long. We are witnessing the pieces required for a robust, long-lived bull market being assembled right before our eyes in precious metal equities. Buckle up!

Maria Smirnova, Shree Kargutkar & Jason Mayer
Sprott Asset Management
Sub- Advisor to the Ninepoint Gold & Precious Minerals Fund

NINEPOINT GOLD & PRECIOUS MINERALS FUND - COMPOUNDED RETURNS[1] AS OF JUNE 30, 2021 (SERIES F NPP300) | Inception Date - October 12, 2004

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEPTION
Fund	-10.5%	-11.3%	5.9%	-11.3%	-3.3%	18.1%	4.8%	-2.2%	1.6%	4.1%
Index	-10.6%	-5.4%	3.8%	-5.4%	-13.2%	16.9%	4.2%	-0.9%	0.9%	2.9%

[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, 2021; 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.

Ninepoint Partners LP is the investment manager to the Ninepoint Funds (collectively, the "Funds"). Commissions, trailing commissions, management fees, performance fees (if any), other charges and expenses all may be associated with mutual fund investments. Please read the prospectus carefully before investing. The indicated rate of return for series F units of the Fund for the period ended June 30, 2021 is based on the historical annual compounded total return including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The opinions, estimates and projections ("information") contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540