Sprott Gold & Precious Minerals Fund

November 2017 Commentary

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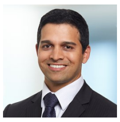

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The Sprott Gold and Precious Minerals Fund ended the month of November virtually flat, losing 0.08% for the month. The TSX Global Gold Total Return Index, lost 0.57% over the same time frame, while gold in Canadian dollar terms gained 0.39%. The month of November has traditionally been weak for gold and gold equities. For this reason, we entered the month with a defensive bias in our portfolio. While several events transpired over the course of the month which were of note, including progress on the U.S tax bill, bitcoin surpassing $10,000 and the continued buoyancy of the U.S. equity markets, it was heartening to see gold and gold equities remain steadfast in the face of the exuberant investor sentiment. Indeed gold has performed better than expected in an environment where investors continue to throw caution to the wind. At the end of November, it was up 5.49% and 10.48% in CAD and USD terms respectively.

As far as seasonality goes, December has proved to be one of the best times for buying gold and gold equities, as they have typically rallied quite strongly off the December lows. We expect this to be the case once again. Being a risk-off asset, gold and gold equities have traditionally performed well in an environment which was volatile for equities, rates and currencies. We would be remiss if we did not point out a few reasons which may cause volatility across asset classes to increase in the coming months.

The most obvious data point is valuations. Since 2009, which many consider to be the bottom for the broader markets, the price per share of the S&P 500 has gained 252% after reinvesting dividends having gone from 903 to 2647. However, the free cash flow generated by each share of the S&P 500 has only increased from $93.62 to $111.35 at the end of FY 2016. This number is expected to increase to $113.46 in 2017, representing a paltry increase in free cash flow of 21% from 2009 to 2017. Put differently, the free cash flow yield of each share of the S&P 500 has decreased from ~10% in 2009 to ~4% today. High yield credit spreads, similarly, are at exceptionally low levels, which once again point to an environment where picking up pennies in front of a steam-roller has come back in vogue in order to generate above market returns. Against this backdrop, it is easy for us to take solace in our portfolio, where we regularly see free cash flow yields north of 10% and P/E multiples around 10x, similar free cash flow yields and P/E multiples found at the bargain basement prices for the S&P 500 found in 2009, when nobody really cared for the S&P 500.

Some of the best valuations we see in our portfolio are with companies who have assets in Australia. It is therefore no surprise to see that our top contributors for the month of November were companies with operations in Australia, namely Kirkland Lake Gold, Dacian Resources and Northern Star Resources. Kirkland Lake Gold, our largest holding, was the top contributor for the month having gained 23% as ongoing exploration at the Fosterville operations continues to exceptionally high grades which are exceptionally economic. Dacian Gold has been continuing to keep its head down as it builds its Mount Morgan project. The stock was up 17% for the month as company rerates from a developer to a producer. Northern Star Resources gained 12% for the month after reporting strong operating numbers at the end of October.

The top detractors for the fund were Torex, Alio Gold and Leagold Resources. Torex's shares were negatively impacted as a result of a labour dispute which has emerged at its El Limon operations. We continue to monitor the situation closely. Alio Gold reported a weak operating quarter, which negatively impacted the stock, however it appears that Alio has addressed the issues plaguing the quarter. Leagold Resources' shares were lower as a result of a slightly weaker than expected quarter. However, Leagold is poised for a significant rerate as it executes on its plans for growth in the coming quarters.

[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 November 30, 2017; 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; substantial unitholder risk; tax risk; uninsured losses risk.

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