Ninepoint Gold & Precious Minerals Fund

April 2018 Commentary

The Ninepoint Gold and Precious Minerals fund ended the month of April up 0.08%. In the same time frame, the S&P/TSX Global Gold index increased by 0.87%. Two primary factors contributed to the Strategy's underperformance to its GDX benchmark in April: 1) underperformance of junior gold mining equities relative to the majors; and 2) profit taking in the Australian equities that we own in the portfolio. We believe that both factors are transient and likely to resolve themselves in the months ahead.

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Gold's relative lack of volatility in Q1 garnered significant investor attention and inflows. Investors plowed money into bullion ETFs such as GLD. Based on publicly available information, bullion ETFs around the world saw their holdings increase by almost 1.94M in the month of April alone. Using gold's closing price at the end of April, $1,320 this translates to USD$2.56 billion of purchases. The typical modus operandi of investors flows into the resource space, which we have gotten used to seeing over the years is that the money first flows into the most liquid area of a market before it begins trickling down into less liquid areas as investors begin to get more comfortable. Sector ETFs are an excellent proxy for gauging money flows into and out of the sector. For gold, bullion ETFs are the most liquid, and these ETFs saw over $2.5 billion of inflows. By contrast, both the GDX and GDXJ, saw outflows of $629M and $196M respectively. Therefore it was no surprise to see junior gold mining equities underperform their larger peers over the same period as both negative and positive flows can skew performance of junior companies as a result of liquidity. At Sprott, we have always valued company fundamentals and long-term prospects over short-term market timing, which is why we ignore short term money flows in favour of longer term prospects. What is encouraging here is that the flows into gold bullion remain robust as ever and over the longer term, money is also flowing into the gold mining space.

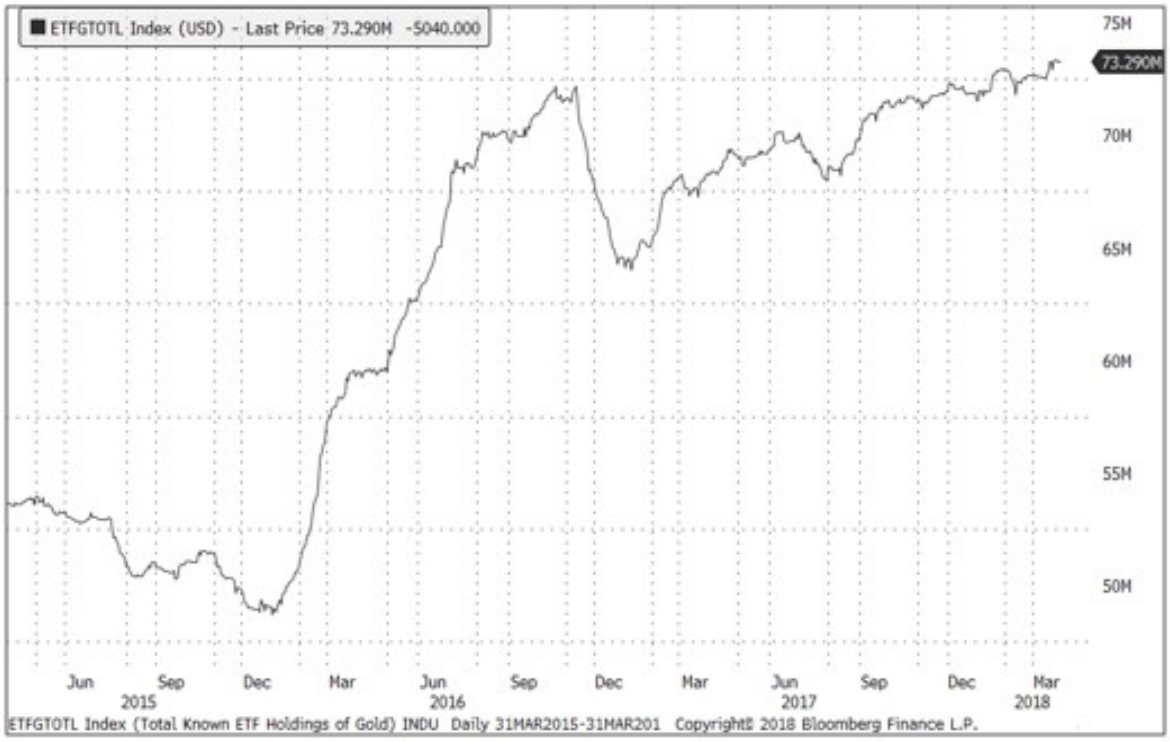
The top three contributors to the fund performance in the month of April were Kirkland Lake Gold, Roxgold and Torex Gold. Kirkland Lake has continued to perform admirably over the past year as they have balanced strong operating results with exciting exploration success. In the month of April, Kirkland Lake reported strong exploration results from their Canadian operations at Macassa. This helped propel the stock higher by 12.16% in the month of April. Roxgold, which has been one of the most disciplined, low-cost producers out of Burkina Faso was up 14.85% in the month of April. Roxgold announced a share buyback plan which was positively received by investors. Torex Gold gold appreciated by 66.9% in the month of April as the company was able to regain access to its mine after community leaders were successful in negotiating an end to an illegal blockade that was put in place by a competing union.

The top three detractors to the fund performance were Cardinal Resources, West African Resources

and Endeavour Mining. Cardinal Resources declined by 12.72% in the month of April as a result of lack of news flow and associated catalysts. The company has continued to work on its Namdini project, which we believe to be a Tier 1 gold deposit. West African Resources, similarly, was down 10.5% in the month of April as the market began focusing on its balance sheet. Subsequently, West African completed an oversubscribed offering of $35M, which will help finance an underground decline at their Sanbrado project. Endeavor Mining declined by 7.83% in the month of April. The decline was not caused by any news, but quickly as a result of the lack of news. We continue to look at Endeavour Mining as a well-positioned African producer with organic upside.

If this were a typical year, our outlook for gold heading into spring would have been slightly guarded. This is because gold has historically experienced seasonal struggles in April and May, and in a typical year, we would have been inclined to raise some cash in the portfolio heading into the second quarter of the year. However, the recent bout of volatility has awoken investors from their QE (quantitative easing) induced slumber. The reality today is that equities are experiencing a valuation compression and increasing yields are eating into bond prices. While we do not expect a dangerous decline in equities or bonds in the near term, the current backdrop is forcing investors to look at their asset mix while also paying attention to their currency exposure. We had noted positive fund flows into gold bullion earlier in the commentary. As the chart below shows, the generalist investor is once again buying gold and this has encouraged us to remain bullishly biased towards precious metals equities. We will be inclined to continue adding to precious metals equities as they come up for sale in the coming months and we would encourage you to do so as well.

Figure 1: ETF Holdings of Gold
(4/27/2015 – 4/30/2018)



Source: Bloomberg. Data as of 4/30/2018

[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 April 30, 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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