Ninepoint Resource Class

April 2019 Commentary

Year-to-date to the end of April, the fund has returned -4.98% (Series F), compared to benchmark that has returned 12.11%. The fund is weighted as follows:

- 60% Gold
- 23% Energy
- 7% Base Metals
- 6% Uranium
- 4% Other

Investment Team

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The fund has underperformed because it has been overweight junior gold equities and underweight energy equities. Gold bullion has now declined for three straight months and the junior gold equity market continues to be dysfunctional and irrational. So why does the fund continue to be overweight gold equities? Because gold bullion and gold equities typically do well during periods of muted and/or slowing economic growth. Despite gold equities trading near record low valuations and sputtering economic data, interest in junior gold equities remains virtually non-existent. This lack of interest is partly a result of US broad markets continuing to put in record highs. The strength in broad markets is something we find surprising considering what we see as a clear deterioration in global economic conditions over the past few months.

From a macroeconomic perspective, there are many things we can point to that indicate all is not well. In the interest of time we will touch on only a few facts that clearly illustrate the deteriorating economic backdrop. Chinese economic data had been clearly deteriorating until Q1 Social Financing surged to a record $1.2 trillion, up 40% over the past year. Considering this surge, it should be no wonder that Chinese economic data improved, albeit marginally, through Q1. Despite this record amount of stimulus Chinese Q1 GDP still slid to 6.4% from 6.5% in Q4/18. The market was ecstatic with this figure because it managed to beat expectations by a whopping 0.1%. The market also chose to ignore the fact that Chinese D/GDP has gone from 233% in Q1/18 to 248% in Q1/19. Imagine what the GDP figure would have looked like without the record amount of stimulus. Another reason for market record highs is that earnings are “beating” expectations. At the start of the year the consensus EPS growth expectations were a healthy 2.8% (YoY for Q1/19). With all the “beats” we have seen during the Q1 earnings season, EPS growth is now on pace to register an unhealthy -3.9% growth. Huh? This is because the “beat” is relative to guidance that had been reduced during Q1/19. These “beats” we constantly hear about are the result of moving the goal posts during Q1. Finally, US Q1 GDP of 3.2% blew away the 2.2% that was expected. Looking under the hood we see an inventory build added 0.67% (net exports contributed 1.03% while government spending added 0.41%. Backing out these items would reduce Q1 GDP growth to 1.1%, a big miss relative to the 2.2% expected.

As was witnessed through 2018, the junior gold equity market continues to be dysfunctional and irrational. This is well illustrated by the performance of two positions held in decent size across the portfolios, White Gold (WGO) and Rubicon (RMX). WGO’s and RMX’s share prices declined 31% and 30%, respectively, year-to-date to the end of April. This is quite a contrast to the 0.1% gain gold

bullion had posted year-to-date to the end of April 2019. What happened? WGO has not reported any material news in 2019. The company has approximately $18M in cash. Agnico-Eagle and Kinross each own approximately 20% and last purchased stock at $1.50 in October 2018. This investment was predicated on a discovery announced in September 2018. Also noteworthy is that this investment was made when gold was trading at approximately $1,225/ounce. So gold is up 4+% and the stock is down 33% without any material developments. This change in WGO's stock price is nonsensical. RMX has a new 1250 tpd mill, headframe, shaft, hoist, 13km of underground workings, more than 28,000 Ha land package and $700M tax loss pools ($300+M that can be used externally). The cost to construct the mill was $150M. The parts of the mill could be sold for $30M. **The NPV5 of the external tax pools is $75M**. Following the decline in RMX 's share price, the company has a market capitalization of ~$65M. Like WGO, the year-to-date move in RMX's share price is nonsensical and the valuation is irrational.

2018 Flow-Through Update

The gross proceeds were 75% invested in mining companies, of which 56% had been allocated to gold mining equities while base metal and uranium equities represent the balance. The remaining 25% was invested in Energy companies. The proceeds were deployed into 37 companies with a weighted average market capitalization of $1.4B.

2018 II Flow-Through Update

The gross proceeds were 91% invested in mining companies, of which 58% had been allocated to gold mining equities while base metal and uranium equities represent the balance. The remaining 8% was invested in Energy companies. The proceeds were deployed into 28 companies with a weighted average market capitalization of $140M.

2019 Flow-Through Update

At the end of April, the fund was 21% invested. 19% has been allocated to gold mining equities while base metal and uranium equities represent the balance. The portfolio currently consists of 9 companies with a weighted average market capitalization of $175M.

Jason Mayer, CFA, MBA

NINEPOINT RESOURCE CLASS - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	-6.7%	-5.0%	-11.3%	-20.1%	-34.6%	-5.1%	-3.4%	-5.7%
Index	1.4%	12.1%	4.4%	5.6%	-7.9%	-0.1%	-4.0%	-3.1%

[1] All returns and fund details are a) based on Series F shares; b) net of fees; c) annualized if period is greater than one year; d) as at April 30, 2019; e) 2011 annual returns are from 10/17/11 to 12/31/11. Blended Index (50/50

S&P/TSX Capped Materials Total Return Index and S&P/TSX Capped Energy Total Return Index) and is computed by Ninepoint Partners LP based on
available index information.

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