



# Sprott Gold & Precious Minerals Fund

## August 2017 Commentary

In our July commentary, we had speculated that the exceptionally long period of low volatility that the broader equity markets had been experiencing would likely end during the month of August. This call proved prescient as August was indeed a more volatile month for equities.

While the S&P and Nasdaq edged higher ever so slightly and the TSX lost a bit of ground, the real winners for the month were gold bullion and gold equities. Gold bullion finished the month of August at \$1321, up 4.1% for the month. The Sprott Gold and Precious Minerals fund returned 7.57% for the month versus the S&P/TSX Global Gold Total Return Index which finished the month, up 8.20%. In our earlier commentaries, we had highlighted the discrepancy in performance when comparing the junior mining equities to the senior gold miners. This discrepancy has continued to this day. To us, this represents a major opportunity, not only to a specialist gold investor but any value oriented investor. Junior gold mining stocks on average tend to trade at lower multiples, but they typically also present a superior growth profile and higher operational leverage to the price of gold. As of August 31st 2017, gold bullion is up 6.6% and the GDX is up 10%, both measured in Canadian dollar terms. The GDXJ, which is populated with junior and mid-cap companies is only up 6.5% over this time frame, having underperformed not only its large cap brother, but also gold bullion itself.

At Sprott Asset Management, we have been students of the gold markets for well over fifteen years and these sort of performance divergences do not show up frequently. The reason why these divergences are not frequent is because, the majority of time, the markets tend to be quite good at valuing securities both in the short and long term. However, there are periods, similar to the one we are currently in, where the market tends to become fixated on the liquidity driven “macro” trade. These periods are often linked to increased uncertainty, be it geopolitical uncertainty or political uncertainty. And like all the previous periods of uncertainty, this period too shall end with the valuation gap closing between the junior and the senior gold miners.

**The top contributors** to the Fund were Kirkland Lake Gold, Northern Star Resources and Semafo Inc. Kirkland Lake has been an outperformer since the beginning of the year as the company has had great exploration and production success at its flagship Fosterville mine in Australia. Kirkland Lake has also been growing production at its Canadian Macassa mine due to increasing grades. The company is generating free cash flow and re-investing it in exploration to facilitate future growth. Northern Star delivered robust financial results for fiscal year ended June 2017. The Company defined their capital management approach by setting the dividend payout at 6% of revenue while maintaining a minimum A\$300 million cash balance for growth. Semafo reported a strong Q2 with cash flow beating expectations and also reported that the Boungou Mine construction is progressing well and is on schedule for first gold pour in Q3/18.

### Investment Team

---



**Jason Mayer, CFA, MBA**  
Senior Portfolio Manager,  
Sprott Asset Management -  
Sub-Advisor



Sub-Advisor

**Maria Smirnova, MBA,  
CFA**

Senior Portfolio Manager,  
Sprott Asset Management -



**Shree Kargutkar, MBA,  
CFA**

Portfolio Manager, Sprott Asset  
Management - Sub-Advisor

**The top detractors** from the Fund were Pretium Resources, Torex Gold Resources and Mag Silver Corp. Pretium reported Q2 results and indicated that it was working to overcome a tight working capital position as their Brucejack mine is in start-up mode. We expect Pretium's shares to undergo a gradual re-rating over the coming quarters as investor confidence in the underlying free cash flow potential of Brucejack increases. Torex reported a weak Q2 due to lower production and sales because of above average rainfall, which prompted management to defer mining some high grade material. Mag failed to participate in the August rally as the Company's JV partner, Fresnillo, announced a decision to conduct a feasibility study on the Juanicipio project. While this means an increase in production, it will also delay the start-up of the project.

## **Sprott Asset Management**

### *Sub-Advisor*

<sup>1</sup> 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 August 31, 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; 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 August 31, 2017 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 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