



Sprott Silver Equities Class

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 precious metals and precious metal equities.

Silver investors saw their silver bullion gain 4.6% in the month while the Sprott Silver Equities fund gained 1.8%. In our other precious metals commentaries, we have marveled at the lack of participation that small and mid cap precious metals equities to the upside especially given at how well both gold and silver bullion have performed on a year to date basis.

The Sprott Silver Equities fund has always believed in uncovering value by investing in the growth oriented silver companies and this methodology has served us well over our history. However, the recent underperformance of the small and mid-cap names versus the seniors and especially in relation to silver bullion has not only been a primary cause of our relative underperformance but more importantly, it has created an investment opportunity, the likes of which we have not seen in many years.

At Sprott Asset Management, we have been students of the silver 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 precious metals miners.

The top contributors to the Fund were Excellon Resources, Dolly Varden Silver and Discovery Metals. Excellon rallied as the market began recognizing that the Company has resolved the water inflow problems at the Platosa mine and that this will lead to increased production and reduced costs. Dolly Varden reported high grade exploration results and the discovery of a new zone. The Company increased the 2017 exploration program budget as a result. Discovery began trading after closing its change of business transaction and becoming the newest exploration company focusing on the Coahuila state of Mexico.

The top detractors from the Fund were Silvercrest Metals, First Majestic Silver and Mag Silver. Silvercrest drifted despite announcing more high grade drill results and expanded their drill program. First Majestic reported a weak Q2 due to work stoppages and lowered production guidance and increased cost guidance for the rest of the year. 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

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