



Sprott Silver Equities Class

December 2017 commentary

The Sprott Silver Equities Fund had a strong finish to the year marked by a 4.66% gain. The MSCI Silver Select Index finished the month up 3.23% over the same time. In our November commentary, we had noted that the month of December has often presented an ideal entry point for buying precious metals and related equities. As has been the case of many Decembers past, last year provided an excellent opportunity to buy silver bullion and silver equities at their lows. The Federal Reserve helped put a floor on gold after affirming that they did not see a need to increase their pace of interest rate hikes following their December meeting. As expected, this also had a positive effect on silver as it bottomed on December 12th. One of the biggest fiscal developments to come out of the U.S. in the past few decades occurred on December 22, 2017 when Donald Trump signed into law a sweeping tax overhaul. While we refrain from commenting on the specifics of the bill, it is worth noting that in virtually every scenario, the bill significantly increases the US Federal deficit for the foreseeable future. For the entirety of 2017, the biggest theme behind gold and silver bullion's gains has been the decline in the U.S. dollar versus other currencies. It is fair to say that with the passage of the bill, the U.S. has made it certain that it will add to its deficits not only during times of economic contractions but also during economic expansions. Following the passage of the tax bill, we were not the least surprised to see the pace of the U.S. dollar decline increase further.

The three largest contributors to the December fund performance were Silvercrest, MAG Silver and Hochschild. Silvercrest closed a \$10M bought deal financing which was well received by the market. The company continues to report exciting exploration results which are being well-received by the investors. MAG Silver completed a \$48M USD financing at the end of November which helped put bring it in a position to fully finance the development of its flagship Juancipio asset. While MAG Silver has one of the highest quality undeveloped silver projects in the world, it remains highly levered to the price of silver itself. With the company now fully financed, investors reacted to silver's December rally by bidding up the MAG shares by 13.9%. However, there remains considerable value in MAG Silver. Shares in Hochschild were up 11.8% for the month of December. In early December, Hochschild announced that it had refinanced its bonds at a lower rate. This refinancing helps save the company approximately \$20M USD a year. Hochschild is expected to generate significant free cash flow in 2018 and we will be closely following their exploration results as they become available.

The three largest detractors for the December performance were First Majestic, Industrias Penoles and Coeur Mining. First Majestic disappointed investors with its reserve update both in terms of grades and tonnage. It is worth noting that the reserve update does not include results from its 2017 drill campaign so we are hopeful that the next reserve update bring First Majestic back on track. Industrias Penoles was the second largest detractor to the fund. It declined just over 3% in the month and we ascribe most of the movement to the rapid increase in the Mexican Peso in December and to tax season selling. Coeur Mining had a relatively busy month as far as press releases go as it sold its San Bartolome operation and provided encouraging exploration results from its Palmarejo

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and Kensington operations. We believe that investors sold the shares of Coeur down 4.45% for the month to capture tax losses.

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 December 29, 2017; e) 2012 annual returns are from 02/28/12 to 12/31/12. The index is 100% MSCI ACWI Select Silver Miners IMI (CAD) Index and is computed by Ninepoint Partners LP based on publicly available index information.

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