Ninepoint Gold & Precious Minerals Fund Market Update

Feb 19, 2021

HOLD Gold and Silver

Investment Team

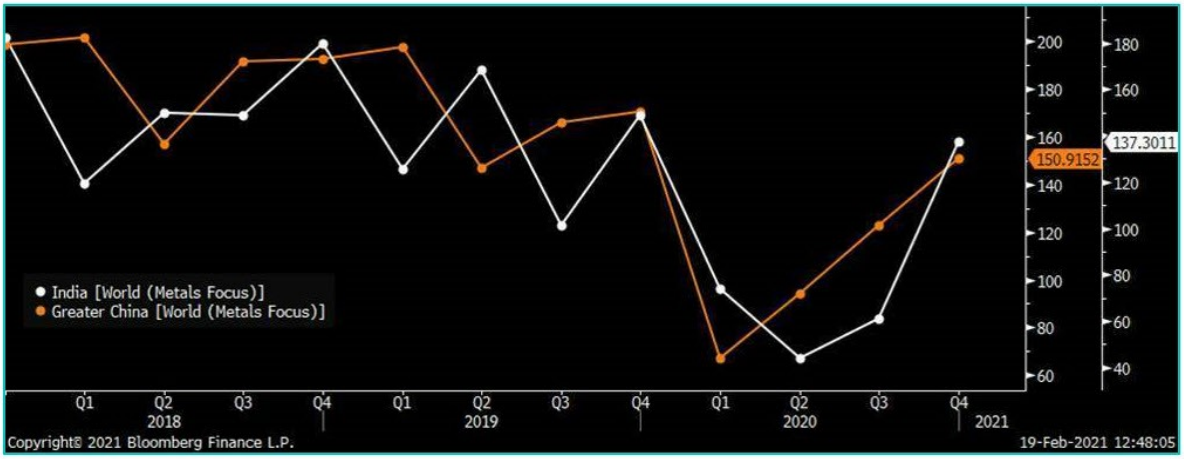
Ninepoint / Sprott,
Sub Advised by Sprott Asset Management (SAM)

Gold and Silver's performance over the past six months has been frustrating and agonizing. It has been frustrating because the seasonal strength we typically see in January and February failed to materialize. It has been agonizing because as precious metal equities have languished, broader equities have managed to attain new highs.

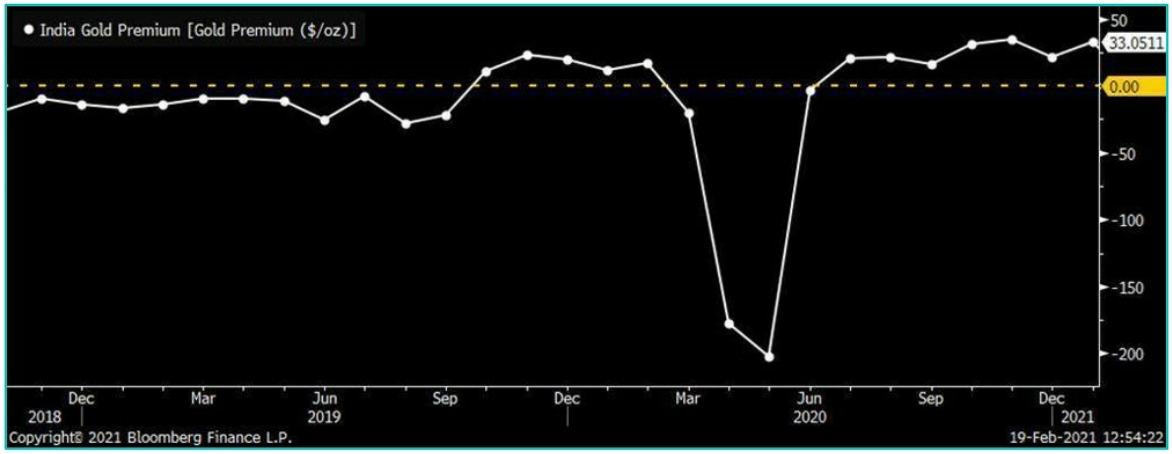
Recent data points from China and India (the largest consumers of physical gold) reveal the supply-demand factor behind the contemporaneous weakness in gold and silver.

While COVID-19 slowed the mining industry modestly, the manufacturing and sale of gold and silver jewelry ground to a halt.

Jewelry consumption in China dropped by almost 2/3rd in the early part of 2020 and has been recovering slowly since. India, which was more badly impacted by the pandemic saw a similarly protracted drop in demand, which has only recently started to recover. It is heartening to see demand from both countries recovering strongly. As consumption of jewelry has rebounded, we expect imports of raw gold and silver for manufacturing to follow suit in the coming months, as jewelers sell through their existing stocks. Jewelry demand from China and India represents almost 25% of the annual mined gold supply.



Concurrent with a rebound in jewelry consumption and gold destocking from retail store shelves, we have seen gold premiums in India rebound from negative into their normally positive territory. This is also a positive read through for silver and platinum jewelry.



The slowdown in demand negatively affected gold and silver's normally strong start to the year. Gold posted its first negative January return since 2013. While the return on silver was positive for January, it was almost 50% below the 10 year average for the month. With gold no longer trading at a discount in India and China, the two largest consumers of physical gold look set to reassert their dominance of the market.

2021 has the potential to be special. In 2020, we saw a surge in investment demand from Western economies for both gold and silver. In North America and Europe, ETF holdings for both metals continue to rise as do coin and small bar premiums. We don't see this trend changing as demand from out East normalizes. Remember, in the face of rising demand, the supply of gold and silver is fixed and finite.

We have even heard anecdotes of multiple generalist fund managers jettisoning their precious metal equities in favor of hotter sectors. The sell-down in precious metal equities has not been driven by fundamentals. 2020 was one of the most profitable year on record for the gold mining industry and margins are expected to reach new highs in 2021. The selling has been emotional, driven by FOMO over fundamentals. The GDM Index (which consists of gold and silver miners) has posted a 425%+ increase in EPS growth since 2019, while the SPX's earnings have grown by a mere 3.5% over the same period. 2021 is expected to be another bumper year of profit growth for the precious metal sector, but you wouldn't know it by looking at the share prices. The opportunity here is in plain sight. The precious metals sector has the potential to be one of the highest growth sectors of any this year. It is also trading at a ~60% discount to the S&P 500 and 74% discount to the Nasdaq on a multiple basis.

Here is a useful example:

In 2020, Kinross generated almost $1B in free cash flow while Tesla's FCF was $2.8B → 2.8x higher than Kinross.
Kinross has a market cap of $8.2B. Tesla's market cap is $752B → 92x higher than Kinross.

Gold's long term trend is determined by real yields, food price inflation and the strength of the USD. Real years are firmly negative and are likely to remain so for years to come. Food prices are rising rapidly. The USD looks set to continue it's bearish trend, as investors grapple with ballooning budget deficits and a difficult recovery ahead.

Gold and Silver's struggles are short term in nature. In 2020, gold broke out of an epic decade long consolidation patterns and is resting before it resumes its rally higher. Similarly, silver is catching its breath after running up to $30/oz. As we have seen and experienced before, these periods of consolidation have resolved higher – in a sudden, violent manner. It is frustrating and agonizing trying to get the timing right. But remember that fundamentals are on our side. Valuations have never been cheaper. If history is a guide, the fruits of patience will be sweet and worth the wait.

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NINEPOINT GOLD & PRECIOUS MINERALS FUND - COMPOUNDED RETURNS[1] AS OF JANUARY 31, 2020 (SERIES F NPP300)

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEF
Fund	-7.1%	-7.1%	-4.0%	-15.5%	40.9%	18.6%	19.7%	-2.1%	2.6%	4.4%
Index	-3.8%	-3.8%	-13.0%	-23.2%	15.2%	17.2%	17.7%	-1.0%	1.2%	3.1%

[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 January 31, 2021; 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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