



Silver Equities Class

January 2018 Commentary

During the period from February 1 to February 8, the S&P 500 declined 8.50%, the Dow Jones dropped 8.8% and the TSX Composite suffered a decline of 5.0% as volatility came home to roost. As one of the calmest periods for equities came to a sudden end in February, the VIX Index rose from a benign reading of 13.33 on February 1st to an intraday high of 50.30 on February 6th. Correlation among various industry sub-groups in the equity space moved up just as quickly, resulting in a uniform sell-off across all industry groups. Almost shockingly, bond yields, as measured by the US 10 year treasuries, continued to rise during this tumultuous period, resulting in a continued decline in bond prices, leaving virtually no shelter for investors who spread their risk across equities and bonds. In short, what we saw transpire over the first week of February was a paradigm shift, which is forcing investors to rethink how to manage risk in their portfolios.

During the past twelve months, we have begun to see silver's correlation to gold increase. This indicates to us that silver is beginning to behave more as a precious metal rather than an industrial metal. While gold has failed to garner much investor attention over the past two years, following the latest episode of volatility and wealth destruction, we are beginning to see investors positioning themselves into gold and silver. Interestingly, silver ETF holdings have risen throughout February. While precious metals equities did sell down during the first week of February, in a kneejerk response to falling equity prices, we expect them to recover and rise above their 2018 highs as fundamentals reassert themselves over the short-term investor fear.

For the month of January, the Sprott Silver Equities Fund lost 3.57% (Series F) versus the MSCI Silver Select Index, which declined 3.41% in the same period. The three largest contributors to January fund performance were Dolly Varden Silver, Silvercrest Metals, and Industrias Penoles. Dolly Varden is exploring for high-grade silver, gold and base metals in the prolific Golden Triangle District, northwestern British Columbia, Canada. The Company completed a drill program in 2017 and discovered four new areas of mineralization with the stock representing excellent value in silver exploration. Silvercrest hosted a well-received site tour to its Las Chispas property and continued to demonstrate exploration success there. Drilling has defined a high grade gold-silver footprint with 1,300 meter strike length and 19 known epithermal veins. Industrias Penoles recovered after declining in the tax loss selling season.

The three largest detractors from January performance were Mag Silver, Pretium Resources, and Wheaton Precious Metals. MAG Silver lost its December gains after its US\$48M financing, which the company completed in order to be fully financed for 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 and sold off on no news in January. Pretium released a negative Q4 production update. Mined grade came in considerably lower than market expectations and reserve grade, introducing uncertainty about the future free cash flows of the mine. Wheaton Precious underperformed despite First Majestic acquiring Primero Mining and its Mexican San Dimas mine. The deal removed the overhang on Wheaton Precious from Primero's potential

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bankruptcy and restructured silver stream on San Dimas.

As precious metal prices continue to appreciate, we continue to see a tremendous amount of value in precious metals equities. With the increase in volatility across virtually all asset classes, we expect precious metals equities to regain their luster.

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, 2018; 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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