



Ninepoint Silver Equities Class

July 2018 Commentary

The Ninepoint Silver Equities Class Fund ended the month of July down 3.61% while the MSCI Silver Select Index declined 6.27%. Investors continue to be worried about the escalating global trade war and rising geopolitical tensions. Worries caused by uncertainty often erupt into panic. We are seeing just that as pockets of panic are emerging across the developing markets. China, the second largest economy in the world, has seen its currency decline by almost 9% since April, 2018. The Turkish Lira has seen its value drop an astonishing 60% since the beginning of the year. The Argentinian Peso, the Brazilian Real, the Russian Ruble are the other victims of the emerging market carnage. The commodity complex has continued to suffer from the emerging market maelstrom. As investors have fled the EMs and into the safety of the US dollar and US equities, they have continued to press their short positions in commodities. Most surprisingly and somewhat counterintuitively, bets against precious metals, have now reached levels never before seen.

Short positions in gold are up 250% year to date. Investors are now short almost 200k contracts, or almost 20 million ounces of gold. We have seen gold do well following previous spikes in short interest. With almost US\$24 billion of gold being shorted, any meaningful short-covering should produce a meaningful price appreciation in gold.

Investment Team



Maria Smirnova, MBA, CFA

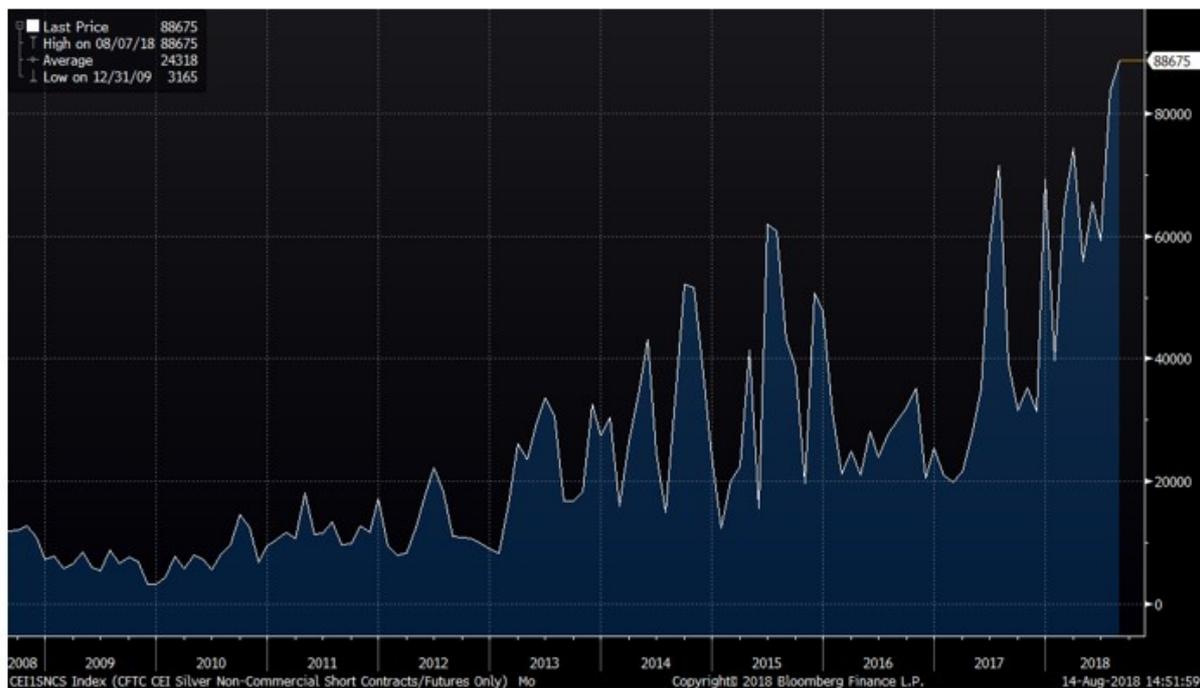
Senior Portfolio Manager,
Sprott Asset Management -

Sub-Advisor



Source: Bloomberg

Interestingly, silver shorts, are also at a record high at the time of this writing, up almost 170% year to date. The latest data indicates that investors are short almost 90,000 contracts of silver, representing almost 450 million ounces. This number is astounding to us for many reasons. With 852 million ounces of silver mined in 2017, 450 million ounces represent 53% of 2017 annual silver production. Out of 852 million ounces, 209 million ounces ended up in silver jewelry and 657 million ounces was used in industrial fabrication including silverware. The two uses of silver alone represent 866 million ounces, according to the Silver Institute report and are larger than the annual mined supply. The gap in supply and demand is met by silver scrap. Suffice to say, silver supply is tight. There are no mines scheduled to come on in the next year or two which would increase annual silver output by anything close to 450 million ounces. Unless an asteroid carrying half a billion ounces of silver lands on earth, we believe the shorts are playing a dangerous game with little to gain.



Source: Bloomberg

The three largest contributors to July fund performance were Silvercrest Metals, Pretium Resources Inc and SSR Mining Inc. Silvercrest continued to outperform after reporting high grade drilling results at its Las Chispas project in Sonora, Mexico. The results demonstrated the exploration upside of the project – the company continues to drill with nine drill rigs and will update the resource estimate in Q3. Pretium released its Q2 production, which was well ahead of analyst estimates on the back of strong grades following the successful implementation of the grade control system. Pretium also announced higher than expected production guidance for the second half of the year. SSR reported strong Q2 production and has guided to a stronger second half of 2018.

The three largest detractors from July performance were Fresnillo Plc, Wheaton Precious Metals and Industrias Penoles SAB. Fresnillo reported weak Q2 production driven by grade and throughput issues at its flagship Fresnillo mine and low water availability at its San Julian mine. Wheaton Precious announced a \$500 million investment in a gold and palladium stream from Sibanye Gold’s Stillwater mine in Montana. Although the stream was immediately accretive to cash flow, the stock sold off together with silver bullion. Penoles reported solid Q2 results despite a quarter-on-quarter decline in the prices of all commodities. The Company delivered healthy FCF generation of MXN1.1

billion.

Maria Smirnova MBA, CFA

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 July 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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Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services:

Toll Free: 1.877.358.0540