Ninepoint Gold & Precious Minerals Fund

Q1 2022 Commentary

The Ninepoint Gold and Precious Minerals Fund experienced a robust first quarter, appreciating 8.39% (Series F) over the past three months. Headlines of the Russian invasion of Ukraine have been dominating the news cycle, which in turn has spurred a worldwide flight to the relative safety of gold bullion. Precious metal equities were a beneficiary of this flight to safety as the broader equity markets around the world sagged on the uncertainty created by Russia. We continue to believe that we are in a structural bull market for gold and silver miners. The wall of worry which is a near constant in early stage bull markets exists for precious metal investors. We remain buyers on pullbacks. Despite a strong rise in precious metal equity valuations, the stocks continue to discount lower gold and silver prices, presenting a unique opportunity in this sector.

Investment Team

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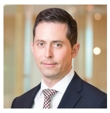

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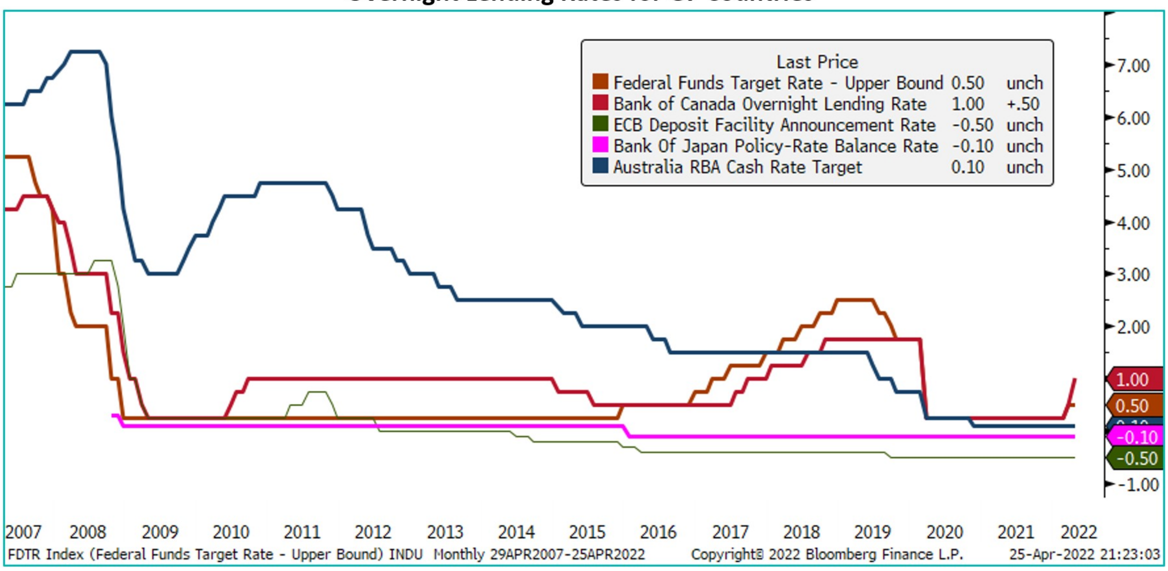
Heading into 2022, the two topics that were making headlines were runaway inflation and uncertainty linked to the “Omicron” variant of the COVID-19 virus. The Russian invasion of Ukraine which began near the end of February threw the inflation narrative into overdrive. The sanctions imposed on Russia are likely to cause further inflationary headaches for a few reasons. Firstly, Russia is one of the largest producer and exporter of key commodities including oil, natural gas and palladium. Economic sanctions imposed on Russia have made it more difficult for Russia to sell their commodities to the world thereby increasing both prices and uncertainty around these products. Secondly, Russia is an important producer of both agricultural produce as well as potash which is vital to global agriculture. Ukraine is known as the bread-basket of the world and large portions of the world’s population rely on Ukraine’s wheat exports to feed themselves. Food inflation which was underway prior to the Russian invasion has now reached absurd levels as various soft commodities are seeing their prices skyrocket. Countries around the world have already begun hoarding food products which is unlikely to bring any near term relief. When we do see some normalization occur in food prices, they will likely be at wildly higher levels than what we have been used to over the past 5-6 years.

UN Food and Agriculture Price Index

Source: Bloomberg

Buoyant inflation has already spurred central banks across the world to increase their pace of tightening as they try to contain the ravages of rising prices. However, overnight rates remain near historically low levels while inflation is near multi-decade high. In fact, the highest overnight rate out of the G7 nations is in Canada which recently raised its benchmark rate to a whopping 1% - sarcasm intended.

Overnight Lending Rates for G7 Countries



Source: Bloomberg

As central banks raise rates, there is a direct reduction in the pace of economic output. As global economies re-open from COVID, the last thing any central bankers would like to do is to harm the nascent post-COVID recovery before it takes hold. This is the quandary that central bankers around the world find themselves in. Our belief is that while initial rate hikes will come fast and furious at the outset, rates are unlikely to rise to levels necessary to truly combat inflation and raise the real rates above zero. More likely than not, this rate hike cycle will be unable to tamp down inflation and the central banks are likely to blink first when faced with an economic slowdown. On this note, we are already seeing signs of the global economy lose steam. The expectations for the global GDP growth continue to soften, especially since the Russian invasion.

World GDP Growth Forecast for 2022

Source: Bloomberg

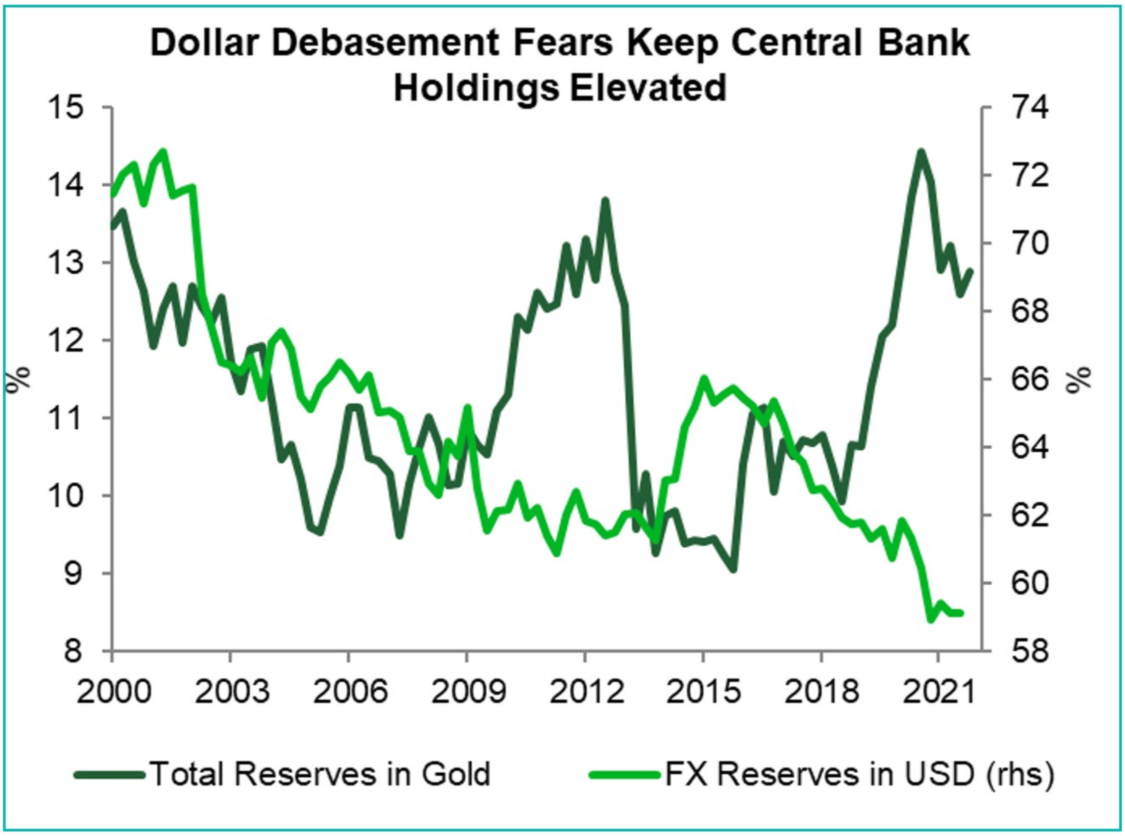
In our view, central banks will learn to accept higher inflation versus putting their respective heavily indebted economies through a painful recession. We experienced similar episodes of high inflation and slow economic growth play out through the 1970s and it bears reminding that precious metals proved to be the big winners through this episode.

Finally, we would like to point out that rate hikes are likely to have minimal impact on this round of inflation. This round of inflation is being driven by rapidly rising commodities we need no excess demand for it. Demand for oil is relatively inelastic barring economic lockdowns such as those seen in the early part of 2020. Demand for natural gas is even more inelastic as coal power plants are being phased out. Demand for metals such as nickel, copper and palladium is less impacted by economic slowdowns as there is a structural need for these metals across various industries. As a result, rate hikes while being successful in tamping down economic activity and loan originations, is unlikely to solve a supply-side problem that can only be solved by higher supply.

A prolonged conflict will result in multiple grain growing seasons lost in Ukraine and hundreds of billions of dollars of commodities becoming scarce in the developed world. Suffice to say, inflation has firmly transitioned from "transitory" to persistent and durable. As it pertains to precious metals, Russia is a very important producer of palladium, gold and silver, producing approximately 40%,10% and 5% respectively. Just as safe haven demand for gold and silver rises, its supply is likely to be severely curtailed adding further tailwinds to the precious metals complex.

What is money?

The US Dollar and the Euro are two most widely circulated currencies in the world and these currencies represented the backbone of Russia's $620B war-chest. Russia woke up to a brand new reality, a few days after it invaded Ukraine. In a coordinated effort, both the US and the Eurozone closed Russia's access to a majority of its $620B foreign reserves. The world learned that day that a fiat currency held as reserves is nothing more than an IOU from the issuing country. Put another way, a fiat currency in your pocket or in your bank is someone else's liability. Russia found this out the hard way. The message was most loudly heard by the likes of China, which holds over $3T of USD as part of its reserves. Given this monstrous paradigm shift that unfolded, the importance of precious metals in your portfolio cannot be understated and the need to include precious metals in your portfolio has never been higher. Indeed, we have been seeing central banks actively diversify their holdings by increasing their allocation to gold as a reserve asset.



Source: Bloomberg, IMF, TDS Commodity Strategy

Gold is no one else's liability and it remains the ultimate insurance against both monetary missteps and a weaponized financial system. We are entering a period of heightened uncertainty. The monetary policy of heavily indebted nations is on a collision course with structural inflationary forces. To this end, we would wholeheartedly recommend other precious metals such as silver, platinum and palladium for their respective ability to retain value and provide necessary insurance in uncertain times. Exposure to precious metal equities is likely to provide a highly sought after asymmetric risk-reward as the bull market in precious metals continues to take hold.

Maria Smirnova, Shree Kargutkar & Jason Mayer

Sprott Asset Management

Sub- Advisor to the Ninepoint Gold & Precious Minerals Fund

NINEPOINT GOLD & PRECIOUS MINERALS FUND - COMPOUNDED RETURNS[1] AS OF APRIL 30, 2022 (SERIES F NPP300) | INCEPTION DATE: OCTOBER 12, 2004

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEPTION
Fund	-6.4%	1.5%	9.7%	3.5%	2.6%	22.6%	9.9%	1.3%	0.6%	4.0%
S&P/TSX Global Gold TR	-5.6%	13.4%	17.8%	21.5%	13.9%	23.5%	11.1%	1.8%	1.9%	3.6%

[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 March 31, 2022; 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.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: commodity risk; concentration risk; currency risk; cybersecurity risk; derivatives risk; exchange traded funds risk; foreign investment risk; inflation risk; liquidity risk; market risk; securities lending, repurchase and reverse repurchase transactions risk; series risk; short selling risk; small capitalization natural resource company risk; sub-advisor risk; substantial unitholder risk; tax risk; uninsured losses risk.

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