



Sprott Gold & Precious Mineral Fund

October 2017 Commentary

Gold finished the month of October at \$1271.45, down 0.75% in U.S Dollar terms. The Sprott Gold and Precious Minerals Fund finished the month down 1.03% versus the TSX Global Gold Total Return Index which finished the month down 0.49%. The Sprott Gold and Precious Minerals Fund has a sizeable allocation into small and mid-cap companies, which have continued to struggle against the backdrop of fund outflows from the precious metals space. This has led to the emergence of exceptional valuations within our sector, something we have touched on in our previous commentary. Against the valuation backdrop has been a favourable tailwind of improving gold prices. Gold in U.S Dollars is now up just over 10% for the year and up 19.2% since January 2016 – a fact largely ignored by a majority of market participants. Allocations into gold bullion and gold equities remain muted and we find this rather perplexing.

Why are we perplexed? Gold has traditionally been regarded as portfolio insurance. It is negatively correlated to most equities and has served to reduce volatility in a portfolio when combined within a traditional portfolio of equities and bonds. With the S&P 500, Down Jones and the Nasdaq trading at all-time highs and at valuations at levels not seen in almost two decades, some generalist investors are rightfully worried about the downside to their portfolios. Indeed this is exactly the environment where serious investors begin giving gold a long hard look as portfolio insurance. However, virtually all of these serious investors remain uninvested in the precious metal. Recently, there has been the emergence of some green shoots. We were pleasantly surprised to discover that Bridgewater Associates, the world's largest hedge fund had increased their GLD ETF holdings by a staggering 570% compared to their previous disclosures. We think that it is a matter of time that investors begin to find it hard to ignore the stealth bull market in gold and react by increasing their allocations into this space accordingly.

The top contributors to the Fund were Pretium Resources Inc., West African Resources and Saracen Mineral Holdings. Pretium reported strong production for the third quarter with good metallurgical recoveries and strong mill performance. We continue to expect Pretium's shares to undergo a gradual re-rating over the coming quarters as investor confidence in the underlying free cash flow potential of Brucejack increases. West African rallied on the back of high grade drill results at their Sanbrado gold project in Burkina Faso. Saracen reported record quarterly production with lower all-in sustaining costs and a build in cash position.

The top detractors from the Fund were Cardinal Resources, Osisko Mining and Roxgold Inc. Cardinal announced a bought deal financing which surprised the market, which in turn caused its share price to weaken. Osisko corrected despite the company continuing to report high grade intercepts from

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their project. The market is currently overlooking near term drilling updates while choosing to focus on the resource update which is expected to be reported in the coming months. Roxgold reported strong third quarter production and has continued to execute well operationally. The near term weakness is likely temporary which should correct itself in due time.

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 October 31, 2017; 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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