



Ninepoint Silver Equities Class

September 2018 Commentary

Ninepoint Silver Equities Class Fund ended the month of August down 4.31% while the MSCI Silver Select Index declined 2.63%. September saw the US 10-year yields move convincingly past the 3% level. With this move, the 30-year bull market in bonds is likely behind us. The implications of higher yields will take months, if not years, for investors to digest.

Investment Team



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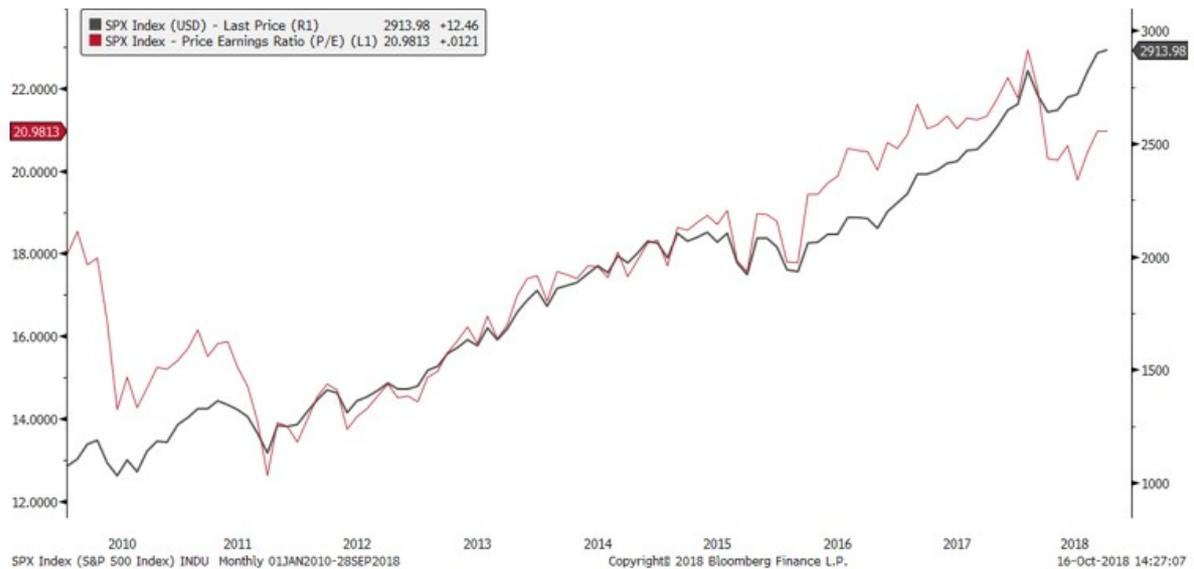
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Source: Bloomberg

Higher yields lead to lower bond prices. As yields rise, bond portfolios, especially those portfolios with higher duration, rapidly lose value. Higher yields also lead to higher discount rates when valuing equities. The most commonly used valuation tool used by equity analysts is the Discounted Cash Flow model. This method utilizes a discount factor, which is derived using the prevailing risk-free rate, which is usually the 10-year yield. Therefore, as yields rise, the discount factor rises along with it, which in turn leads to lower implied valuations of all equities. With P/E ratios near record highs, along with the price of the S&P 500, one has to worry about the impact of higher yields on not just the bond portfolios, but also on broader equities. As yields rise, valuations multiples will have to compress.



Source: Bloomberg

There is one key takeaway for our readers. As yields rise, a traditional stock and bond portfolio may no longer be safe as correlations between stocks and bonds will rise. Introducing more uncorrelated assets such as precious metals could provide the answer.

The top three contributors to the fund performance in the month of September were Cia de Minas Buenaventura, Wheaton Precious Metals and Dundee Precious Metals. Buenaventura did not have news during the month, but the stock held in in relation to peers and post month-end the company reported a positive Q3 production update and increased 2018 guidance. The driver for the good performance was Yanacocha with strong gold production offsetting weaker silver production at other mines. Wheaton Precious began recovering from extremely oversold levels. The Company provided a positive update at the Denver Gold Forum highlighting the fact that there are deal opportunities on the horizon and that over time it will likely become a yield company rather than a growth company, with its dividend potentially increasing from 30% of operating cash flows to 50% or more. Dundee Precious has been executing at its producing mine and smelter and building a new gold mine in Bulgaria. The Company also highlighted positive resource growth and good metallurgic results at their exploration project in Serbia.

The top three detractors from the fund performance in September were Fresnillo Plc, Argonaut Gold and Pan American Silver. Fresnillo is a high quality company with a long track record of success building and operating silver-gold mines in Mexico. The stock has underperformed recently due to some issues at some of their mines, but we believe these are transitory and will be resolved over time. Argonaut has high leverage to the gold price as it operates low grade mines and fell prey to short positions in September as its short interest ratio increased to 11.8 on September 14th. Pan American underperformed after having outperformed since the beginning of the year and gave up some of those gains likely due to its base metals and Argentina exposure.

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 September 30, 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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