



Ninepoint Silver Equities Class

September 2019 Commentary

As the trade war continued to fuel volatility across global equity exchanges, the Ninepoint Silver Equities Class continued its strong performance in 2019. At the end of Q3, the strategy was up 20.25% YTD and returned 13.36% over the course of Q3 2019.

While Q3 was positive overall, the month of September saw precious metal equities take a necessary breather after a torrid July. We had anticipated this and prepared for this by increasing cash levels and reducing exposure to higher volatility names. Our proactive focus towards risk mitigation and volatility reduction has translated into significantly lowered volatility and beta versus the indices.

The top three contributors to the fund performance in the third quarter were Silvercrest Metals, Pan American Silver and Wheaton Precious Metals. Silvercrest is a successful gold-silver explorer in Sonora, Mexico and it continued its outperformance trend in Q3. The company released positive explorations updates, the approval of the Environmental Impact Assessment Statement by the government as well as the receipt of the General Explosives Permit. Pan American is a silver, gold and base metals miner in the Americas. The company has a number of mines and is quite levered to the price of silver. The stock benefited from a rising silver and gold price in the quarter and reported a good second quarter, also guiding to a stronger second half of the year. Wheaton Precious is the go-to name in the silver space. The company demonstrated leverage to the silver price in the quarter.

The top three detractors from the fund performance in the third quarter were Fresnillo Pls, Americas Gold and Silver and Cia De Minas Buenaventura. Fresnillo is a Mexican-based miner and has encountered operational issues at some of its mines in the last several quarters. Management is addressing these setbacks, although it will take time to implement all the improvements that are planned. Americas Gold and Silver also has operations in Mexico, the stock's negative contribution has more to do with the timing of purchase of the shares vs. its relative performance. Buenaventura is a Peruvian miner and has underperformed this year with the company revising 2019 guidance down. The Company subsequently also revised guidance down with Q3 production results.

Precious Metal Sector Commentary

While silver has continued to trade at frustratingly low levels, we look towards gold to set direction for the price of silver. Gold bullion traded at a six year high in September 2019, making a new high of \$1552/oz. Despite gold trading almost 14% higher than the 2016 peak of \$1366/oz, the GDJ failed in its attempt to surpass the 2016 high. The GDJ was even worse off, trading almost 20% below its 2016 high.

The combination of rising bullion prices and investor apathy towards precious metals equities has created a potent mixture for precious metals investors. As bullion prices continued their march

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higher during the third quarter, we saw something entirely unexpected occur in the precious metal equity funds and related ETFs. Outflows.



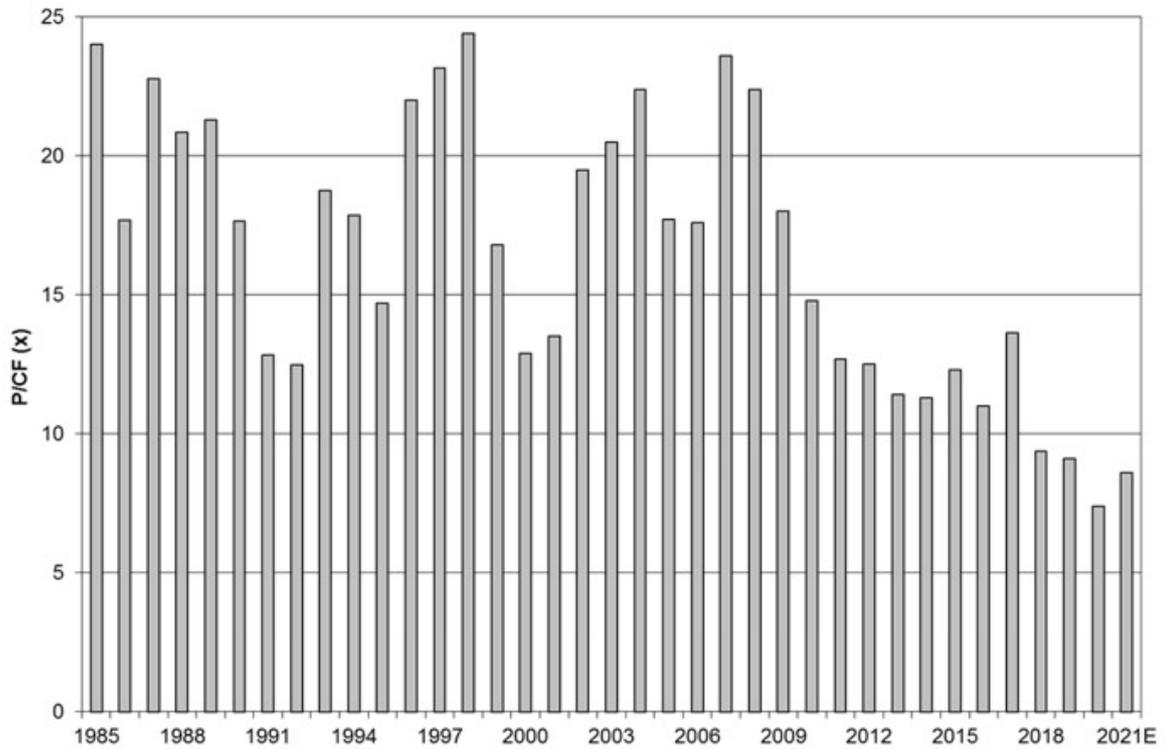
Source: Bloomberg

The chart above graphs the year-to-date shares outstanding in the GDX and GDJ ETFs. As precious metal equities experienced strong gains in June and July, investors responded by redeeming their units for cash. Over the course of the first three quarters of 2019, investors have redeemed 82.10M shares of GDX and 27.70m shares of the GDJ. This represents 16.36% and 19.52% of shares outstanding for the GDX and GDJ respectively – a truly staggering amount.

This behavior was not confined to passive vehicles such as ETFs because we saw the same pattern emerge from investors in actively managed precious metal equity funds as well. These divergences are unusual and uncommon, especially given two very important factors.

1. The precious metals sector today are far more leaner and profitable than they were the last time we saw gold prices around \$1500/oz after having endured a six year bear market in bullion prices. Senior precious metal equities today trade at one of the lowest P/CF multiple in over thirty years.

Senior Producer Price to Cash Flow Multiples



Source: Scotiabank

2. Similarly, precious metal equities have never been as cheap in over thirty years when measured against their Net Asset Value (NAV). The chart below, courtesy of Scotiabank graphically demonstrates this point.



Source: Scotiabank

The chart below is a classic and it captures investor sentiment at various phases of the market cycle.



We surmise we are currently somewhere between the two Ds of the market cycle, namely, between despondency and disbelief. Following the classic capitulation we witnessed at the end of 2015, investors have been downright despondent and doleful towards precious metals investing over the past few years despite strong returns. The GDX and GDXJ have returned 97.80% and 99.75% from Jan 2015 through September 2019 inclusive of dividends far outperforming the S&P 500 which returned 57.20% including dividends. Equity investors have met the 2019 rally in bullion prices with disbelief. They have responded by cashing in their gains in gold and silver equities, afraid that they may never see these prices any time soon. Therein lies the opportunity for savvy investors who recognize the bargain represented by silver equities.

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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, 2019; 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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