Ninepoint Gold & Precious Minerals Fund

Q3 2020 Commentary

Investment Team

Ninepoint / Sprott,
Sub Advised by Sprott Asset Management (SAM)

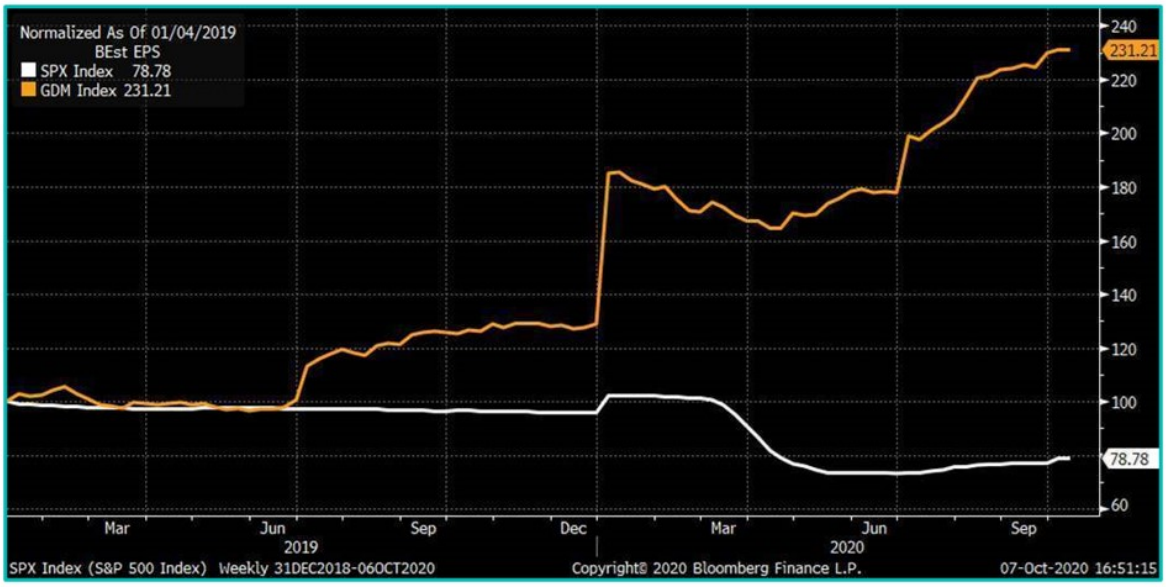
The Ninepoint Gold and Precious Minerals Fund returned 10.04% in Q3 2020 and is up 56.32% YTD as of September 30, 2020. Third quarter volatility, while still elevated, was significantly lower than what we endured in the first two quarters of 2020. Our fund's positioning towards profitable producers of the mid-cap ilk continues to generate meaningful alpha relative to our benchmark. We remain convinced that the precious metals sector is poised to capture the attention of a broader audience in the coming quarters.

COVID continues to be top of mind for investors. On that point, the precious metal mining sector appears to be learning to cope with the impacts and friction caused by COVID. Unsurprisingly, we have seen cost inflation occur across companies in our coverage universe and costs have risen between 5-10% for producers. We have seen exploration work get delayed by a few weeks and in some cases, a couple of months. We have seen some companies buttress their balance sheets to "COVID proof" their operations. By and large these impacts appear small and will likely prove transient.

While the costs of doing business in the COVID era have gone up, the price of both gold and silver have increased even more. Year to date, gold bullion and silver bullion prices have increased 24.3% and 30.2% respectively. Near zero rates on short term treasuries are challenging the wisdom of a 60/40 split between stocks and bonds. While nominal rates are at or near zero, inflation has endured, causing real yields to remain firmly negative in many developed countries across the world. Negative real yields are a tax on savers who choose to hold government treasuries. Institutional investors have only just begun to increase their allocations into precious metals. Earlier in September, the $16B Ohio Police and Fire Pension Fund announced a 5% allocation to gold. Other large institutional investors such as PIMCO and even Berkshire have made their initial forays into the precious metal space. It is obvious that the 60/40 stocks and bond model is sorely in need of a gilded makeover. With institutions beginning to see the wisdom of allocating towards precious metals, we believe that the rally in gold and silver is in the early innings of a potent bull market.

Coincidently, fundamentals of precious metal miners have rarely looked better in over a decade. When it comes to our portfolio companies, revenues are growing, margins are growing, free cash flow yields are growing and most importantly, profits are growing. Fundamentals are finally beginning to matter as investors are beginning to weigh precious metal producers on their own merits.

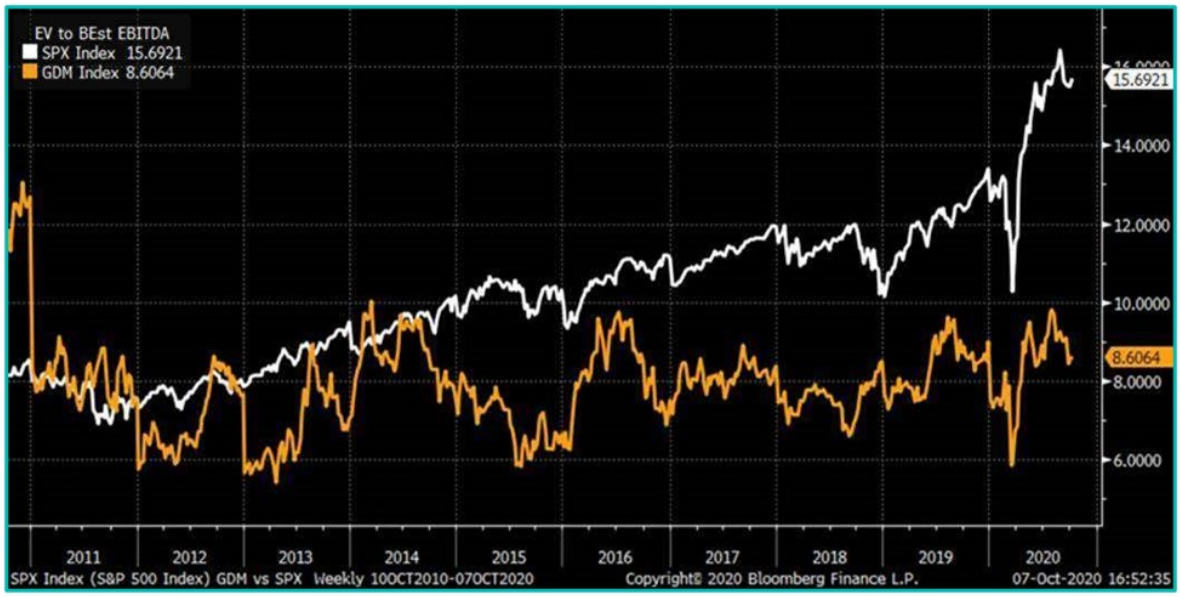
It is important to point to these positive fundamentals. While the S&P 500 has recovered its year-to-date losses, its earnings estimates continue to wilt, and revenue growth has dried up. Unlike the S&P 500, the NYSE Gold Miner's index earnings estimates have risen by over 230% since the beginning of 2019.



Source: Bloomberg

The only area of growth for the S&P 500 has been in earnings multiples, something we haven't seen occur in the precious metals mining space. In the precious metals space, valuation multiples have remained steady while top line, bottom line and free cash flow yields have exploded higher.

Today, the NYSE Gold Miner's index trades at ~8.5x EV/EBITDA. The S&P 500 EV/EBITDA multiple on the other hand, despite economic uncertainties trades at almost 16x – over 80% more expensive relative to the gold miners index.



Source: Bloomberg

These discrepancies will begin to become obvious as earnings reports start to roll out for Q3 2020. The disparity in earnings growth and valuation multiples will become difficult if not impossible to ignore. Up here in Canada, precious metal miners represent around 9% of the TSX Composite. Through the first three quarters, precious metal miners have added over 350 basis points of positive performance to an index that was down over 300 basis points. Most generalists have shunned precious metals miners. We sometimes wonder how much underperformance they can endure

before they capitulate.

The fourth quarter tends to produce seasonal drawdowns in precious metal bullion and equities. With US elections on the horizons, we may be poised for a period of volatility in the coming months. We have proactively raised our levels of cash in our portfolios and we will be ready to take advantage of bargains if and when they appear. In our previous commentaries, we had highlighted outflows out of the precious metals mining sector despite its strong performance. We are happy to report that the outflows have now been replaced by inflows. However, these inflows can best be described as perfunctory. Bottom line, the precious metals sector is astoundingly underowned and generalist investors remain grossly underweight. We remain unabashedly bullish.

Maria Smirnova, Shree Kargutkar & Jason Mayer
Sprott Asset Management

NINEPOINT GOLD & PRECIOUS MINERALS FUND - COMPOUNDED RETURNS[1] AS OF SEPTEMBER 30, 2020 (SERIES F NPP300)

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEP
Fund	-5.6%	56.3%	10.1%	93.5%	72.1%	22.1%	22.7%	-0.3%	5.3%	5.1%
Index	-4.7%	40.5%	5.6%	55.3%	56.2%	24.1%	25.1%	0.10%	4.4%	4.4%

[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, 2020; 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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