



Ninepoint Silver Equities Class

Q3 2020 Commentary

The Ninepoint Silver Equities Class returned 18.21% in Q3 2020 and is up 55.02% 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 between profitable producers and explorers continues to generate meaningful alpha relative to our benchmark. We believe that the precious metals sector is poised to capture the attention of a broader audience in the coming quarters.

Investment Team



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

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.

Coincidentally, 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 MBA, CFA

Sprott Asset Management

NINEPOINT SILVER EQUITIES CLASS - COMPOUNDED RETURNS¹ AS OF SEPTEMBER 30, 2020 (SERIES F NPP 423)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Funds	-13.4%	55.1%	18.2%	119.9%	86.4%	22.8%	25.7%	1.5%
Index	-7.3%	43.3%	14.8%	95.5%	66.6%	16.0%	23.5%	-1.2%

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) 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.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: capital gains risk; class risk; 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; specific issuer risk; sub-advisor risk; substantial shareholder risk; tax risk; uninsured losses risk.

Ninepoint Partners LP is the investment manager to the Ninepoint Funds (collectively, the "Funds"). Commissions, trailing commissions, management fees, performance fees (if any), other charges and expenses all may be associated with mutual fund investments. Please read the prospectus carefully before investing. The indicated rate of return for series F units of the Fund for the period ended September 30, 2020 is based on the historical annual compounded total return including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The opinions, estimates and projections ("information") contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners. Any reference to a particular company is for illustrative purposes only and should not be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received

remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540