

The trends we saw in June can be characterized as a continuation of what has been transpiring year-to-date. Real yields continued to climb higher, the U.S. dollar continued to lose ground against major currencies and volatility in broad equity markets remained muted. In a widely expected move, the Federal Reserve raised interest rates for the second time this year, up by 0.25%. The central bank also announced its intention to reduce its balance sheet this year. Silver finished the month of June down 4%, settling at \$16.63 and underperforming gold, which was down 2.15% for the month. Silver equities performed less favourably as our benchmark, the MSCI ACWI Select Silver Miners IMI (CAD) Index finished the month down 5.51%. The Sprout Silver Equities Class finished the month down 5.70%, in line with the benchmark.

In our May commentary, we noted the sizeable impact of large flows both in and out of the gold equity ETFs and in particular the GDXJ and the GDX. From peak to trough these ETFs lost over 30% of their assets which is approximately \$6B. Most precious metals equities, with the exception of senior companies such as Barrick and Goldcorp, do not have the trading liquidity to absorb such a large outflow in an orderly manner. As a result, the share prices of many small and mid-cap gold and silver companies were negatively impacted. The outflows from the GDXJ were particularly painful to us considering the portfolio is weighted heavily towards small and mid-cap equities, which is the part of the market where we can add significant alpha. The month of June was quite encouraging to us. The change in the GDXJ index methodology now means that the large price swings resulting from large index flows in and out of gold stocks will not impact the juniors as much as they have historically. Looking ahead, we are hopeful for a continuation of normalcy that appears to have come over the precious metals equities sector.

Touching on Silver fundamentals, June is a traditionally weak season for precious metals physical demand. The monthly sales of the America Eagle silver coins declined 65% year-over-year and 60% from May. While Indian imports were strong and the first 6 months of the year totaled 3,000 tonnes (more than double of 2016), there was some pre-stocking ahead of a rise in GST on July 1st.¹ Silver ETF holdings were relatively flat after surging in May. CFTC data showed that net speculative long positions contracted substantially during the month with managed short positions increasing >60%.

The top contributors to the Fund were Continental Gold, Mag Silver and Torex Gold. Continental continued to re-rate after announcing a US\$109 million strategic equity investment by Newmont Mining at a 46% premium to the previous day's close. The Company hosted a site visit at their Buritica project in Colombia, which showcased progress towards first production in 2020. Mag recovered after being heavily sold down into the GDXJ rebalancing as the ETF was expected to reduce the Company's weight. Torex refinanced its project finance facility and announced positive infill drilling results from their recently discovered sub-sill zone.

The top detractors from the Fund were Fresnillo, Wheaton Precious Metals and Compania de Minas Buenaventura. Fresnillo has been building their significant growth pipeline and has been in an outperforming trend since the end of 2016 and the stock took a pause in June. Wheaton Precious Metals is the bellwether name in the silver space and led the way down during the month. Buenaventura was expected to be added to the GDXJ, but was not, and fell close to 10% in one day.

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Sprout Silver Equities Class

¹ Source: Thomson Reuters GFM.

SPROTT SILVER EQUITIES CLASS

June 2017 Commentary

COMPOUNDED RETURNS (%)¹

	1 MTH	YTD	3 MTH	6 MTH	1 YR	3 YR	5 YR	ANNUALIZED INCEPTION (01/03/12)
FUND	-5.7	-3.6	-7.5	-3.6	-16.1	1.8	-0.9	-8.2
MSCI ACWI SELECT SILVER MINERS IMI (CAD)	-5.5	2.2	-6.1	2.2	-13.2	3.4	-4.1	-9.1



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¹ All returns and fund details are a) based on Series A shares; b) net of fees; c) annualized if period is greater than one year; d) as at June 30, 2017; 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 Sprott Asset Management LP based on publicly available index information.

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