

Low volatility, buoyant global equity markets and rising real yields greeted gold and silver as the month of May began. This combination of factors is usually quite negative for precious metals and under normal circumstances we would have positioned ourselves defensively. However, as real yields were rising, the economic surprise indices were moving decisively lower. While the S&P 500 was making new highs, we observed that the market's internal breadth was thinning. For these reasons, we knew that May would mark an inflection point.

During the second week of May, our hunch proved correct as longer dated treasuries and the US dollar began moving lower in lock-step. This was primarily because the prospects of a near-term Trumpian stimulus and tax cuts faded as the Comey memos emerged. As the month progressed, the US dollar continued getting weaker as investors focused on improving prospects in Europe. This move away from the US dollar and into Euro provided a favourable tail wind for silver prices. Given the rough start to the month, silver managed to finish the month up 0.7% and recovered a majority of the losses endured during the first week of May. The silver price benefited from strong inflows into silver bullion ETF's, which increased by almost 23 million ounces in May.

The MSCI ACWI Select Silver Miners IMI (CAD) Index gained 0.19% for the month of May, while the Sprott Silver Equities Class gained 0.37%. In our previous commentary, we had talked about the impact the junior gold mining ETF (GDXJ) was creating on the small and mid-cap precious metals mining equities. This impact continued into the month of May as the GDXJ entered into redemption mode. Over \$500M of assets were redeemed from the GDXJ during the month of May. Sales of these magnitude impact companies with poor liquidity in a manner which is quite punitive. It is worth noting that while silver managed to hold virtually flat in the month of May, the GDX gained 2.1% while the GDXJ lost 2.5%, largely owing to the liquidity dislocation. As we have noted in the past, these short term fluctuations have proved to be excellent buying opportunities. We took advantage of these valuation dislocations once again and continued adding names to our portfolio which we felt were trading at the largest discount versus their intrinsic value.

The top contributors to the Fund were Fresnillo, Wheaton Precious Metals and Silvercrest Metals. Fresnillo has been in a strong outperformance trend since December 2016. The company has high quality gold and silver assets in Mexico, has a strong management team and is busy building their enviable production pipeline. It is a go-to precious metals name on the London Stock Exchange. Wheaton Precious (formerly Silver Wheaton) started off 2017 on track with production guidance reaffirmed. With strong free cash flow and access to credit, Wheaton Precious remains well-positioned to take advantage of accretive streaming opportunities. Silvercrest announced positive drill results from their Las Chispas project in Mexico and a discovery of a new historically unmined high grade vein adjacent to the main vein on the property.

The top detractors from the Fund were Industrias Penoles, McEwen Mining and Endeavour Silver. Penoles reported Q1 results that showed lower gold production year-over-year (due to lower input from third parties), flat silver production and higher base metals. This was offset by higher metals prices and the company demonstrated strong free cash flow. McEwen exhibits high leverage to silver and gold prices and suffered disproportionately in May. Endeavour reported a strong Q1 with higher realized metals prices and lower costs and exploration expenses. Both McEwen and Endeavour suffered from expectations that their weights would be reduced in the upcoming GDXJ ETF rebalancing in June.

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Sprott Silver Equities Class

SPROTT SILVER EQUITIES CLASS

May 2017 Commentary

COMPOUNDED RETURNS (%)¹

	1 MTH	YTD	3 MTH	6 MTH	1 YR	3 YR	5 YR	ANNUALIZED INCEPTION (01/03/12)
FUND	0.4	2.2	-6.6	0.1	11.5	10.6	0.1	-7.3
MSCI ACWI SELECT SILVER MINERS IMI (CAD)	0.2	8.1	-2.1	5.4	16.5	11.6	-2.6	-8.3



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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 May 31, 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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