

Low volatility, buoyant global equity markets and rising real yields greeted gold as the month of May began. These factors are normally negative for gold. 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 suspected that May would mark an inflection point in gold.

During the second week of May our suspicions proved correct as longer dated treasuries and the US dollar began moving lower in lock-step. This was primarily because the market's hopes of a near-term Trumpian stimulus package and the long promised tax cuts faded as the Comey memos emerged. As the month progressed, the US dollar continued to weaken as investors focused on an improving European outlook. Despite the rough start to the month, gold managed to close out May virtually flat.

The TSX Global Gold Index gained 0.69% for the month of May while the Sprott Gold and Precious Minerals Fund lost 0.89%. In our previous commentary we had talked about the impact the junior gold mining ETF (GDXJ) was having on small and mid-cap gold mining equities. This continued throughout May as the GDXJ entered into redemption mode. Over \$500M of assets were redeemed from the GDXJ during the month. Needless to say the impact on the ETF holdings was punitive, especially considering that 78% of GDXJ holdings were in stocks in which the ETF held greater than 10% of the shares outstanding. Naturally performance suffered exemplified by the fact that while gold was flat in the month of May, the GDX gained 2.1% while the GDXJ lost 2.5%. 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. At the time of writing we are already seeing the junior equities beginning to handily outperform the seniors as the selling pressure wanes.

The top contributors to the Fund were Kirkland Lake Gold, Integra Gold and Continental Gold. Kirkland Lake has been an outperformer since the beginning of the year as the company has had great exploration and production success at its flagship Fosterville mine in Australia. The company is generating free cash flow and re-investing it in exploration to facilitate future growth. Integra was acquired by Eldorado Gold in a friendly transaction at a 50% premium. Continental announced a US\$109 million strategic equity investment by Newmont Mining at a 46% premium to the previous day's close.

The top detractors from the Fund were Asanko Gold, Pretium Resources and Acacia Mining. Asanko reported a strong Q1 with lower than expected costs at the beginning of the month, but on May 31<sup>st</sup> a short-seller report caused the stock to decline 13% prior to being halted. The company then issued a press release re-affirming production and cost guidance for 2017 and stated that the short report had no merit. Pretium released an update on their Brucejack project declaring that the project is on track for production in the coming weeks. The stock seems to have suffered from expectations that the GDXJ ETF will sell shares of the company in the June rebalancing. Acacia continued to suffer from a government ban in Tanzania on gold/copper concentrate exports and a Presidential Committee accused the company of not fully declaring all the metal contained in their concentrates.

# SPROTT GOLD & PRECIOUS MINERALS FUND

May 2017 Commentary

## COMPOUNDED RETURNS (%) AS AT MAY 31, 2017<sup>1</sup>

	1 MTH	YTD	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR	15 YR	ANNUALIZED INCEPTION (11/15/01)
SPROTT GOLD & PRECIOUS MINERALS FUND	-0.9	1.6	-7.1	0.2	-2.6	9.9	-4.9	-4.3	3.0	8.6
S&P/TSX GLOBAL GOLD TOTAL RETURN INDEX	0.7	8.0	0.9	10.0	1.1	8.1	-6.2	-1.9	0.5	3.7



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<sup>1</sup> All returns and fund details are a) based on Series A units; b) net of fees; c) annualized if period is greater than one year; d) as at May 31, 2017; 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 Sprott Asset Management LP based on publicly available index information.

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