Sprott | Sprott Global Gold Separately Managed Account

Q1 2018 Quarterly Commentary

INVESTMENT TEAM

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STRATEGY OBJECTIVE

The primary objective is to provide long-term capital growth. In order to achieve its investment objective, the Investment Team aims to invest primarily in equities that are directly or indirectly involved in the exploration, mining, production or distribution of precious metals and minerals. Additionally, some assets may be allocated into bullion, cash, ETFs, debt securities and derivatives.

PORTFOLIO COMPOSITION
As of March 31, 2018

Equities	83.0%
Cash	5.0%
Gold Bullion	5.0%
Platinum Bullion	4.0%
Silver Bullion	3.0%
Total	100.0%

EQUITIES GEOGRAPHIC ALLOCATION
As of March 31, 2018

Australia	29.0%
United States	28.0%
Canada	20.0%
United Kingdom	6.0%
Total	83.0%

Notes from Down Under

It is no secret that we have been fans of Australian gold miners. Members of the Sprott Gold team embarked on a trip to Australia in March as part of our ongoing due diligence. The trip served to reinforce two things. First, Australian gold producers are significantly more profitable than their North American peers, given their use of cutting-edge technologies to drive cost efficiencies. Second, the management of Australian companies own a much higher percentage of equity than their North American peers, making them more closely aligned with shareholders. Our trip also helped us to identify new investment opportunities for our clients.

Closer to home, the broader equity markets have continued to experience aftershocks to February's sell-off. Investor concerns about increasing yields, prospects of trade wars and the health of the global economy are combining to feed increased market volatility. In our February commentary, we pointed to gold bullion as a safe haven amid the growing turbulence across asset classes. Gold bullion is holding its ground as persistent volatility in stocks, bonds and currencies continue to make investors uncomfortable. The ongoing stability of gold bullion may come as a surprise to investors who have not looked into the space recently. We contend that we have already seen a bull market emerge in gold bullion. Perhaps more importantly, we believe that the bull market in Australian gold mining equities has the potential to spill over into North American equities as well. We believe that investors fortunate enough to buy the dips in gold equities have the potential to earn handsome rewards in the coming years.

Performance Summary

For the month of March, the Sprott Global Gold Strategy's reference account increased 0.70% (net of fees). By comparison, GDX gained 2.95% and GLD rose 0.63%. Two primary factors contributed to the Strategy's underperformance to its GDX benchmark in March: 1) underperformance of junior gold mining equities relative to the majors; and 2) profit taking in the Australian equities that we own in the portfolio. While we believe that both factors are transient and likely to resolve themselves in the months ahead, we discuss these specific factors below in more detail.

For the first quarter of 2018, the Sprott Global Gold Strategy declined by 5.62%, slightly lagging the GDX which lost 5.42%; GLD gained 1.73% in the first quarter.

Since its inception (May 1, 2017), the Sprott Global Gold Strategy has returned 5.85%, outperforming both GDX and GLD, which posted returns of -0.34% and 4.16%, respectively.

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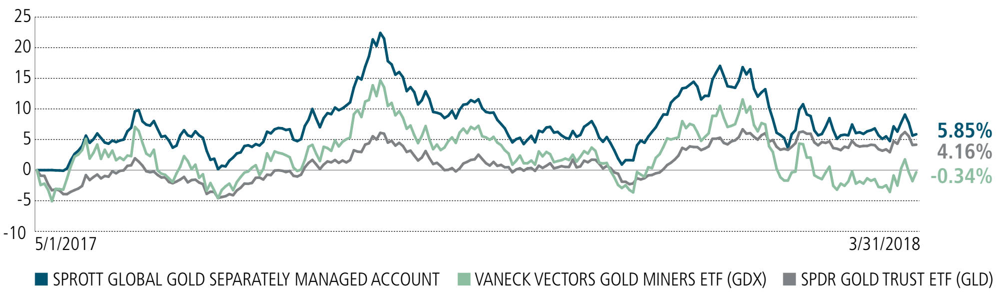
Total Returns (net of fees)

As of March 31, 2018

	March Month	Q1 2018	Since Inception (May 1, 2017)
Sprott Global Gold Strategy	**0.70%**	**-5.62%**	**5.85%**
GDX[1]	2.95%	-5.42%	-0.34%
GDXJ[2]	2.45%	-5.80%	-0.21%
GLD[3]	0.63%	1.73%	4.16%

Cumulative Daily Performance

(5/1/2017 – 3/31/2018)



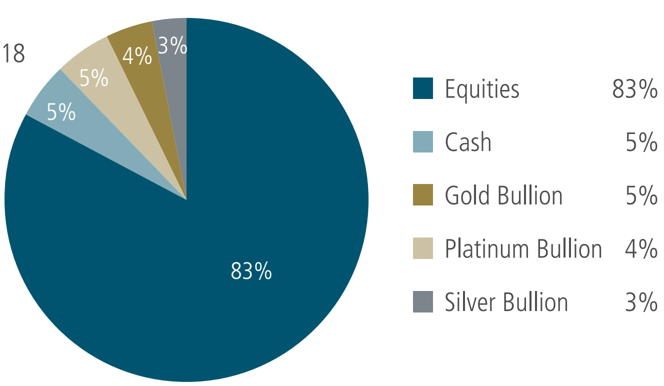
Market Overview

The sell-off in broader equities we first experienced in February carried over into March. The month of March saw the S&P 500 Index decline 2.54% while the Nasdaq Composite and the Dow Jones Industrial Average gave back 2.79% and 3.59%, respectively (all Indices reflect income reinvested). Despite an exceptionally strong start in January, the S&P 500 was lower at the end of Q1 2018, giving up 0.76% for the three month period. GDX outperformed its smaller-cap peer, GDXJ, primarily as a result of money flows. We will discuss this in greater detail below. Volatility was not restricted to equities only, as both interest rates and currencies fluctuated wildly in the first quarter. This left investors scampering for places to hide. Gold bullion (GLD), a beacon in the sea of red, was up 0.63% in the month of March and finished the quarter with a gain of 1.73%.

Portfolio Composition

At the end of the first quarter of 2018, the portfolio held 83% in precious metals mining equities, 12% in bullion and 5% in cash. Precious metals bullion holdings included gold (5%), silver (3%) and platinum (4%).

As of 3/31/2018



Q1 2018 Performance Contributors

Company Name	Contribution %	Average Weight %
Gascoyne Resources	0.70	2.88
Galena Mining	0.55	1.48
Goldcorp	0.34	4.08
Centamin PLC	0.21	2.33
St Barbara	0.16	1.77

Australian gold miner Gascoyne Resources (ASX: GCY) was the largest contributor to performance in Q1 2018. Gascoyne returned 28.23% in Q1 of 2018 as the company continued to demonstrate smooth progress in the construction of its Dalgaranga gold operations. Galena Mining (ASX: G1A) returned 28.57% in Q1 2018 on the back of exceptional exploration success at its Abra Lead-Silver project. Goldcorp (NYSE: GG) had been shunned by investors near the end of 2017 and we took advantage of this opportunity to buy low. Goldcorp's stock price was higher by 8.38% at the end of Q1 2018 as investors began focusing on improved operational results and increased confidence in management. Gold miner Centamin PLC (LON: CEY) returned 2.14%, including dividends paid. We have long been fans of Centamin for its ability to maintain low costs and for rewarding its shareholders with a strong dividend yield. The company currently yields just shy of 6%. Centamin operates the Sukari Gold Mine, the first large scale modern gold mine in Egypt. St Barbara (ASX: SBM), another Aussie mid-cap gold mining company, continued to demonstrate strong operational execution, while also progressing on its capital projects at the Gwalia gold mine in Western Australia.

Q1 2018 Performance Detractors

Company Name	Contribution %	Weight %
Aurion Resources	-0.84	0.56
Sabina Gold & Silver	-0.65	1.80
Roxgold Inc.	-0.55	1.57
IAMGOLD Corp	-0.52	2.20
Marathon Gold	-0.46	1.84

Aurion Resources (CVE: AU) was the largest detractor to the Strategy in Q1 2018. The stock declined on the back of discouraging exploration results from its Amarusko gold project in Finland. Sabina Gold & Silver (TSE: SBB) was the second largest detractor to the portfolio. While the company continues to demonstrate exploration success and a strong balance sheet, investors have continued to focus on the negatives, those being Sabina's location and the CAPEX to build their project. Roxgold Inc. (TSE: ROXG) is another gold miner which has continued to deliver on its operations. We believe that the recent drawdown in Roxgold may have been a result of selling pressure from a large shareholder; with this pressure out of the way, we have seen Roxgold's shares move higher since March 31. A common theme in the detractors has been size and liquidity. Elevated equity volatility had investors shunning North American listed names that had lower liquidity and smaller size in favor of larger names.

Portfolio Commentary

Gold's relative lack of volatility in Q1 garnered significant investor attention and inflows. Investors plowed money into bullion ETFs such as GLD. Based on publicly available information, bullion ETFs around the world saw their holdings increase by almost 632,000 in the month of March alone. Using gold's closing price at the end of March, $1,325.48, this translates to USD$837.7M of purchases. The typical modus operandi of investors flows into the resource space, which we have gotten used to seeing over the years is that the money first flows into the most liquid area of a market before it begins trickling down into less liquid areas as investors begin to get more comfortable. Sector ETFs are an excellent proxy for gauging money flows into and out of the sector. For gold, bullion ETFs are the most liquid, and these ETFs saw over $800M of inflows. The second most liquid investment in the gold space is GDX, which is invested primarily in senior gold mining companies. GDX saw inflows of $764M in March. By contrast, the GDXJ, which mostly holds junior-sized gold equities only saw inflows of $26.7M. As many investors know well, flows drive prices and therefore it was no surprise to see junior gold mining equities underperform their larger peers over the same period. At Sprott, we have always valued company fundamentals and long-term prospects over short-term market timing, so we chose to ignore the flows into senior golds from a positioning perspective.

The second reason for our relative underperformance in the month of March was our exposure to gold mining equities in Australia. At the end of March, the Sprott Global Gold Strategy had 29% of its portfolio invested in Australian gold mining equities. This was lower than the peak of 36% at the beginning of the year. As we have noted before, Australian gold mining equities have been outperforming their global peers owing to better execution, cost discipline and most importantly, focusing on generating shareholder value. The outperformance of Australian gold producers versus the GDX is apparent in the graph below.

Figure 1: Aussie Gold Miners vs. GDX

(4/29/2015 – 3/31/2018)

Source: Bloomberg. Data as of 3/31/2018.

What is also apparent is that the outperformance has not happened in a straight line. We saw profit taking across several Australian gold mining equities in March and as a group, they saw their valuations reset to more reasonable levels as a result. We used this opportunity to add back exposure to this space and increased our Australian holdings to 34% of the portfolio following our April portfolio update. We initiated positions in Ramelius Resources (ASX: RMS), while increasing our holdings in Saracen Minerals (ASX: SAR) and Northern Star Resources (ASX: NST). Ramelius Resources, in particular looks quite interesting to us. Ramelius is a mid-sized Australian gold producer with an annual output of circa 200,000 oz. gold. By our math, Ramelius should generate roughly A$50M of free cash flow, over the next twelve months, which is particularly attractive given its A$280M market cap with zero debt and A$61M of cash and bullion on hand. The current valuation is not a fluke because the company is currently sitting on reserves of a mere 500,000 oz. However, we see the company being able to increase its reserves materially as they convert the ounces from their 2.5M oz. resource into reserves while also adding new reserves to its recently acquired Edna May operation. We see potential of a substantial re-rate as the company demonstrates its abilities to increase reserves while using its balance sheet to fund future growth.

We have continued to increase the portolio's exposure to silver bullion and silver equities. While we have seen gold bullion and gold equities perform well over the year, silver and silver equities have suffered. Much has been said about the gold: silver ratio, which currently sits near 80, and has rarely stayed there for long over the past 25 years, as shown below.

Figure 2: The Gold/Silver Price Ratio

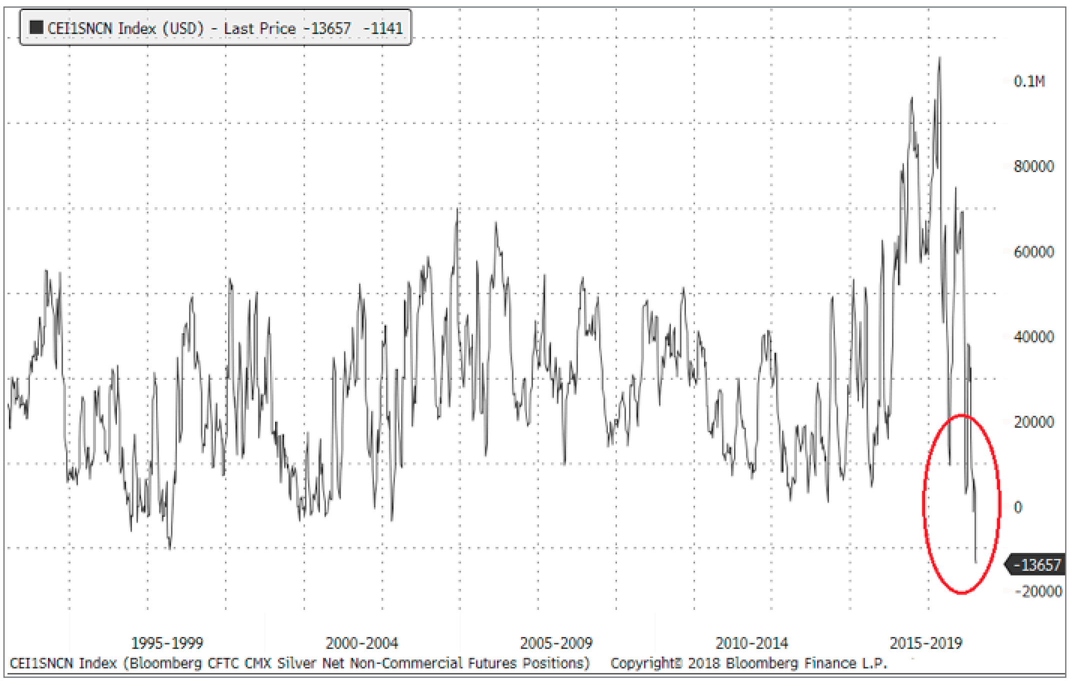
(5/31/1993 – 3/31/2018)

Source: Bloomberg. Data as of 3/31/2018.

The price of silver often moves independently of gold, primarily because silver is mined as a by-product from base metals mines. This has meant that production of silver has not been strongly linked to the price of silver making silver production somewhat price inelastic to silver. By contrast, lower gold prices can curtail gold production because gold is often produced as a primary metal and not as a by-product. However, what really piqued our interest towards silver was not the lack of investor demand, but rather negative speculative interest in silver as reported by the CFTC (Commodity Futures Trading Commission). We have not seen this sort of negativity towards silver in more than 30 years.

Figure 3: Silver Sentiment is Low

(1995-2018)



Source: Bloomberg. Data as of 3/31/2018.

We took advantage of this opportunity to increase the silver bullion allocation in the portfolio to 6% while also increasing the exposure to silver equities to 15%. While we do not expect immediate gains to follow in silver, continuation of the gold's strength will help close relative disconnect between gold and silver.

Q2 2018 Outlook

If this were a typical year, our outlook for gold heading into spring would have been slightly guarded. This is because gold has historically experienced seasonal struggles in April and May, and in a typical year, we would have been inclined to raise some cash in the portfolio heading into the second quarter of the year. However, the recent bout of volatility has awoken investors from their QE (quantitative easing) induced slumber. The reality today is that equities are experiencing a valuation compression and increasing yields are eating into bond prices. While we do not expect a dangerous decline in equities or bonds in the near term, the current backdrop is forcing investors to look at their asset mix while also paying attention to their currency exposure. We had noted positive fund flows into gold bullion earlier in the commentary. As the chart below shows, the generalist investor is once again buying gold and this has encouraged us to remain bullishly biased towards precious metals equities. We will be inclined to continue adding to precious metals equities as they come up for sale in the coming months and we would encourage you to do so as well.

Figure 4: ETF Holdings of Gold
(4/27/2015 – 4/26/2018)

Source: Bloomberg. Data as of 3/31/2018.

Authored by Shree Kargutkar, Portfolio Manager, Sprott Asset Management LP
May 1, 2018

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[1] VanEck Vectors Gold Miners ETF (GDX) tracks the overall performance of companies involved in the gold mining industry.

[2] VanEck Vectors Junior Gold Miners ETF (GDXJ®) tracks the overall performance of small-capitalization companies that are involved primarily in the mining for gold and/or silver.

[3] SPDR Gold Shares (GLD) is an exchange-traded fund and is used as a benchmark to measure gold bullion prices.

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