Sprott Global Gold Separately Managed Account

Q2 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 June 30, 2018

Equities	89.5%
Silver Bullion	6.4%
Cash and Cash Equivalents	4.1%
Total	100.0%

EQUITIES GEOGRAPHIC ALLOCATION

As of June 30, 2018

Australia	35.2%
Canada	30.3%
United States	16.8%
United Kingdom	4.5%
South America	1.7%
Russia	1.0%
Total	89.5%

Gold/Commodities Slump on Trade War Fears

In late January, the 10% sell-off of the S&P 500 Index was caused by the prospect of a global trade war. Six months later, the U.S. equity markets have recovered but "trade war" headlines dominate the news. On June 1, the Trump administration launched its steel and aluminum tariffs on imports from Canada, Mexico and the European Union. New tariffs on Chinese goods followed and we are now in the midst of a growing global trade war. Some market participants believe that the United States is insulated from the effects of a global trade war. Others are of the opinion that a full-blown trade war is unlikely, while some still believe the mutually beneficial trade agreements can still be brokered. Market participants have attempted to de-risk their portfolios by moving into the U.S. dollar and U.S. equities, which explains their recent strength. U.S. technology, healthcare and consumer discretionary stocks are now the most crowded trades while emerging market equities, bonds and emerging market currencies have been sold off. The move out of emerging markets, in particular, explains some of the recent strength in the U.S. dollar.

Commodities have been another casualty of the global trade war. Except for crude oil, whose strength is related to pressure on supply from Venezuela and Iran, virtually all commodities, including gold have been liquidated. The GLD ETF,[1] which we use as a proxy for gold, saw its value drop by 5.68% in Q2 of 2018. By contrast, GDX,[2] a good proxy for the health of precious metals equities, has held up remarkably well.

Performance Summary

For the second quarter of 2018, the Sprott Global Gold Strategy's ("Strategy") reference account lost 1.34% while GDX gained 1.50%. The 284 basis points underperformance in Q2 was the single largest quarterly underperformance thus far for the Sprott Global Gold Strategy. **For YTD 2018**, the Strategy has declined 6.88% compared to declines of 4.00% for GDX and 4.04% for GLD.

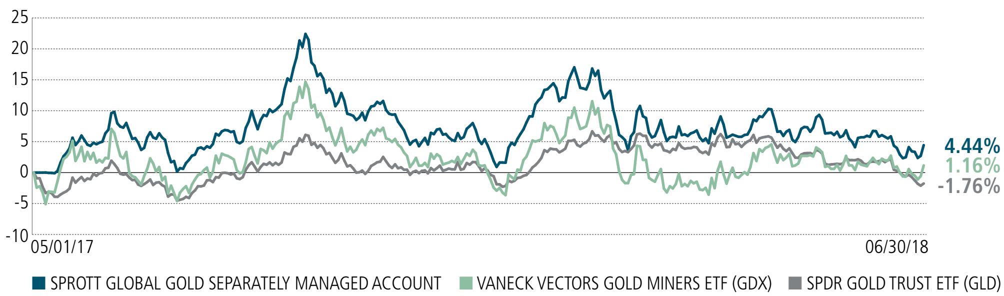
Since its inception (May 1, 2017), the Strategy has returned 4.44% after fees. Over the same period, GDX has appreciated by 1.16% including dividends reinvested and GLD has declined by 1.76%.

While the Strategy continues to outperform both GDX and GLD since inception, it is important to understand the factors driving the recent bout of underperformance. At the end of Q2, the Strategy's reference account held 89.5% in equities, 6.4% in silver bullion and 4.1% in cash. Small- and mid-cap precious metals equities, particularly those that are not constituents of GDX or GDXJ came under surprising pressure in Q2. The second quarter is tax season in Australia, and several Australian miners experienced tax-loss related selling pressure. Also, North American small-cap precious metals equities experienced unexpected losses due to poor liquidity as investors sought safety in larger, more liquid names. The resulting illiquidity was so severe for smaller companies, that in several instances monthly volumes declined between 30-50% versus the previous quarter.

Total Returns (cumulative, net of fees)
As of June 30, 2018

	YTD 2018	Q2 2018	Q1 2018	Since Inception (May 1, 2017)
Sprott Global Gold Strategy	**-6.88%**	**-1.34%**	**-5.62%**	**4.44%**
GDX[2]	-4.00%	1.50%	-5.42%	1.16%
GDXJ[3]	-4.19%	1.71%	-5.80%	1.49%
GLD[1]	-4.04%	-5.68%	1.73%	-1.76%

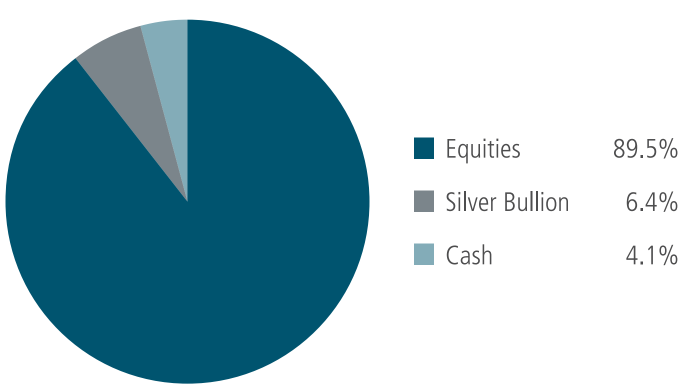
Cumulative Daily Performance
(5/1/2017 – 6/30/2018)



Portfolio Composition

At the end of the second quarter of 2018, the Strategy's portfolio held 89.5% in precious metals mining equities, 6.4% in bullion and 4.1% in cash. Precious metals holdings included only silver (6.4%) as of June 30, with no allocations to gold or platinum bullion.

As of 6/30/2018



Q2 2018 Performance Contributors

Company Name	Contribution %	Average Weight %
Kirkland Lake Gold	0.73%	2.29%
Saracen Minerals	0.52%	3.73%
Sandfire Resources	0.43%	2.05%
Westgold Resources	0.40%	2.18%
Northern Star Resources	0.28%	2.71%

In keeping with our long espoused theme, Australian equities featured heavily in the Strategy's top contributors. In Q2, each of the top five companies had large exposure to Australia. **Kirkland Lake Gold** was the Strategy's top contributor, adding 73 basis points. Kirkland owns and operates four underground gold mines and three milling facilities in two prolific mining jurisdictions of Canada and Australia. Kirkland delivered a strong production and exploration update in May. We expect the company to perform well going into the second half of the year as its ultra-high-grade Swan zone (located in Australia) comes into production. Similarly, Australia's **Saracen Minerals** delivered a strong production update and increased its guidance for the year, which helped contribute 52 basis points to portfolio performance. **Sandfire Resources**, a leading Australian miner, is one of the least expensive producers in our universe when using free cash flow as a measure. In the second quarter, Sandfire reported encouraging exploration results from properties near its DeGrussa Copper-Gold Mine which Sandfire owns on a partnership basis. Every year of extension to the mine life at the DeGrussa Mine adds almost 20% to Sandfire's net asset value. The land around its plant is quite prospective, and we believe in Sandfire's ability to successfully add mine life through ongoing exploration.

Q2 2018 Performance Detractors

Company Name	Contribution %	Average Weight %
Centamin PLC	-1.20%	4.00%
Osisko Mining	-0.74%	1.64%
Oklo Resources	-0.43%	0.98%
Compañía de Minas Buenaventura	-0.31%	1.84%
Gascoyne Resources	-0.28%	2.16%

Centamin PLC was the top detractor in our portfolio, costing the portfolio 120 basis points. Centamin reported a weaker than expected Q2, as grades at its open pit and underground operations came in under budget. The resulting decline in Centamin's stock price was due primarily to investor sentiment rather than fundamentals. "Guilty until proven innocent" is the current modus operandi of resource investors these days, and we have seen plenty of investors overreact to bad news on multiple occasions. Centamin's lower rate of production is transitory and we expect both its open pit and underground grades to begin moving towards the company's long-term guidance. Longer term, Centamin has handily outperformed both gold and gold equities, and it is committed to maintaining a high dividend payout to its unitholders. Therefore, we have used this opportunity to add to our holding. **Osisko Mining** was the second largest detractor for the portfolio in the second quarter after it reported an underwhelming resource estimate. While a 2.88M oz resource is nothing to sneeze at, it came in below the market expectations of 3-4M oz. In an all too familiar fashion, investors sold first before establishing proper valuations. Osisko's shares have recovered nicely post the initial sell-off. We trimmed some of the portfolio's position in Osisko after its shares bounced back and will keep a close eye on this story. **Oklo Resources** was the Strategy's third-largest detractor and cost the portfolio 43 basis points. Q2 is tax season in Australia and we saw several smaller, illiquid companies – like Oklo – come under heavy pressure as a result of tax-loss selling. Fundamentally speaking, not much has changed at Oklo as it continues to progress its Seko gold discovery in Mali towards an initial resource. **Gascoyne Resources**, the fifth largest detractor, was a likely casualty of tax-loss selling despite successfully transitioning from a developer to a gold producer in the second quarter.

Portfolio Commentary

In our Q1 2018 commentary, we had noted that Q2 tends to be weak for gold and gold equities as physical buying has historically troughed around this period. We were expecting Q2 2018 to be stronger than historical averages as a result of the looming trade war and geopolitical uncertainty.

At the beginning of the second quarter, the Strategy's portfolio was positioned 83% in precious metals equities, 12% in bullion and 5% in cash. As various mining companies came up for sale, we took advantage of these opportunities by increasing our holdings in equities and reducing our allocation to cash and bullion.

During the second quarter, we took profits in **Kirkland Lake Gold**, **Westgold Resources**, **St Barbara Limited** and **Fortuna Silver Mines**. We also removed smaller holdings in **Marathon Gold**, **Leagold Mining** and **Probe Resources** as market liquidity concerns around these three holdings outstripped potential gains. **Endeavour Mining** was also sold from the portfolio given our thematic shift away from West African gold mining equities. We continued to add to our Australian exposure, increasing our allocation to Northern Star Resources, Saracen Mining and Sandfire Resources, versus Q1 2018. New additions to the Strategy's portfolio in Q2 included **First Majestic Resources** and **Yamana Gold**.

We had highlighted silver's value proposition relative to gold in our first quarter commentary. For most of Q2, silver outperformed gold, although some relative gains were surrendered in late June. For the long term, we continue to see silver and silver equities favorably positioned to provide outsized gains relative to gold and gold equities. As of June 30, the gold/silver ratio was a steep 80:1, and we believe it is likely to return to its long-term historical average of 60:1.

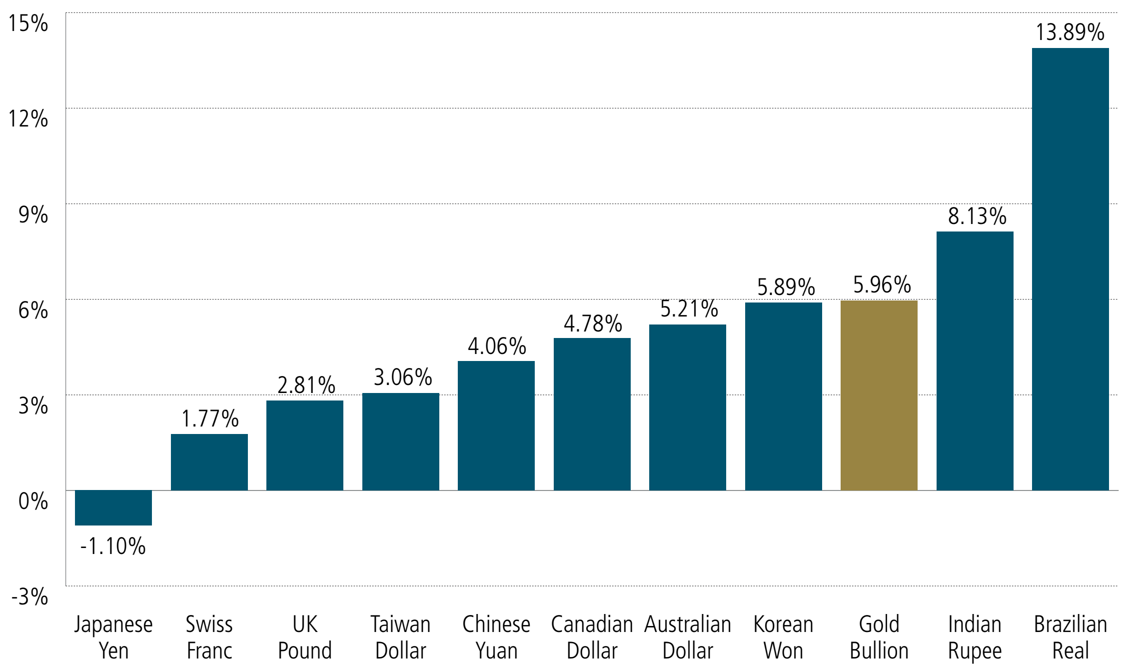
Q2 2018 Outlook

One of the most commonly asked questions of late has been: **Why isn't gold doing better?** Admittedly, we have also been perplexed. Finance 101 teaches us that the market is an accurate discounting mechanism – unless uncertainty prevents the market from doing so. We see new forks emerge in the U.S. policy towards trade and geopolitics almost daily. The current Trump administration is currently engaged in a trade war with the European Union, Canada, Mexico and China. Despite all the bluster, the monetary impact of the trade war remains quite small. Currently, $34 billion worth of Chinese goods is being hit with an import tax, for which China has retaliated in kind. Canada retaliated in early July after $12 billion worth of goods, primarily steel and aluminum were slammed with a tariff. The U.S.-Canada trade partnership is worth almost $630 billion while the U.S.-China trade relationship is valued at almost $650 billion. The U.S. currently trades almost $2.3 trillion worth of goods with the world and the amount of goods being impacted with an import tariff are estimated to be $92 billion (or a mere 4%). In the grand scheme of things, tariffs on a small portion of trade have had minimal impact. While Trump has threatened to tax the $500 billion of goods being imported from China and has even threatened local automakers from manufacturing cars in NAFTA countries, many investors remain hopeful that the trade disputes will be settled before an all-out trade war occurs. If the current trade "skirmish" leads to a full-scale trade war, we have the potential to see the emergence of a strong bull market for gold.

The knee-jerk reaction for most market participants, when faced with the prospect of loss, is to seek shelter under the comforting shade of the U.S. dollar. The prospect of a trade war has prompted investors to flee emerging markets, particularly those most exposed to potential trade war fallout and repatriated capital. This has placed a sizeable bid under the U.S. dollar, in spite of spiraling U.S. budget deficits. U.S. dollar strength has also been fueled by U.S. corporations that began repatriating cash held offshore for years. This repatriated cash appears to have been promptly deployed into share buybacks and not into capital projects as the Trump administration had hoped. It is little wonder that the U.S. dollar has appreciated relative to virtually every major currency, including gold.

Figure 1: The Appreciating U.S. Dollar

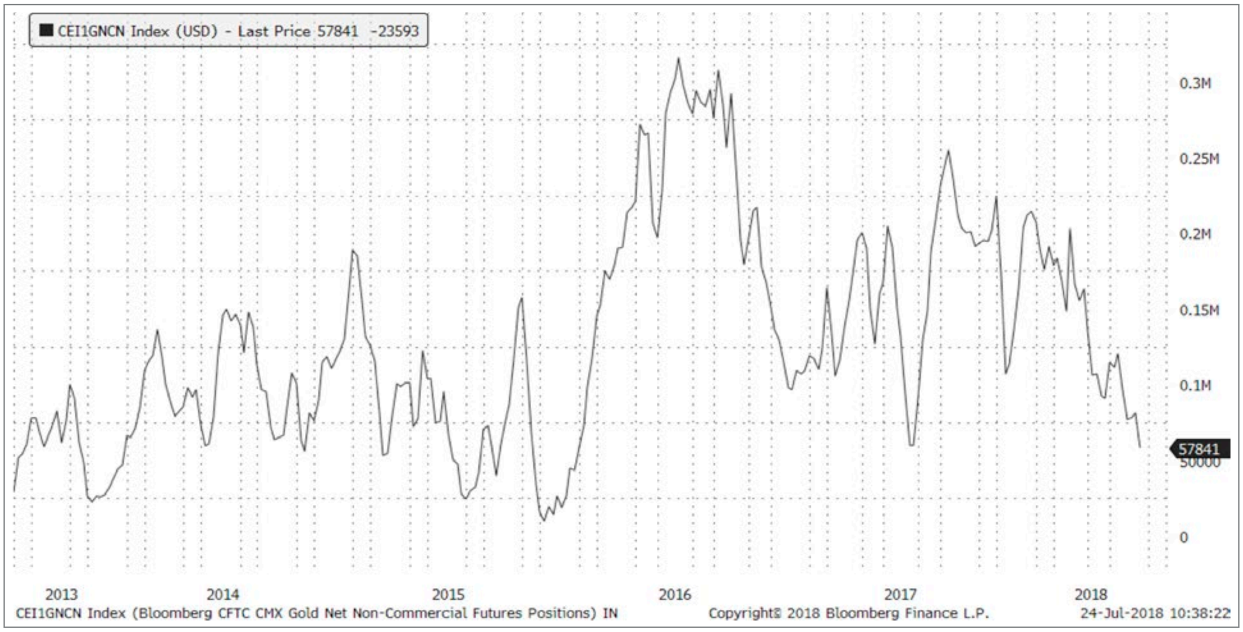
(% YTD Gains of U.S. Dollar versus 10 Currencies and Gold Bullion)



Source: Bloomberg (Jan 1 – July 20, 2018).

Panic buying of the U.S. dollar and liquidation by frustrated holders of gold have led to a situation in which everything that could go wrong for the yellow metal has gone wrong, and sentiment in gold has never been poorer. This is easily evidenced by anemic futures positioning in gold. By contrast, gold equities have held up remarkably well. Gold equities generally lead gold bullion prices. With gold futures positioning near two-year lows, it leads us to believe that while commodity traders have liquidated their speculative positions, long-term oriented investors have encouragingly stood steadfast to gold.

Figure 2: Gold Futures Positioning at Two-Year Lows



Source: Bloomberg (2013 – July 24, 2018). The CEI1GNCN Index measures the Bloomberg CFTC CMX Gold Net Non-Commercial Futures Positions.

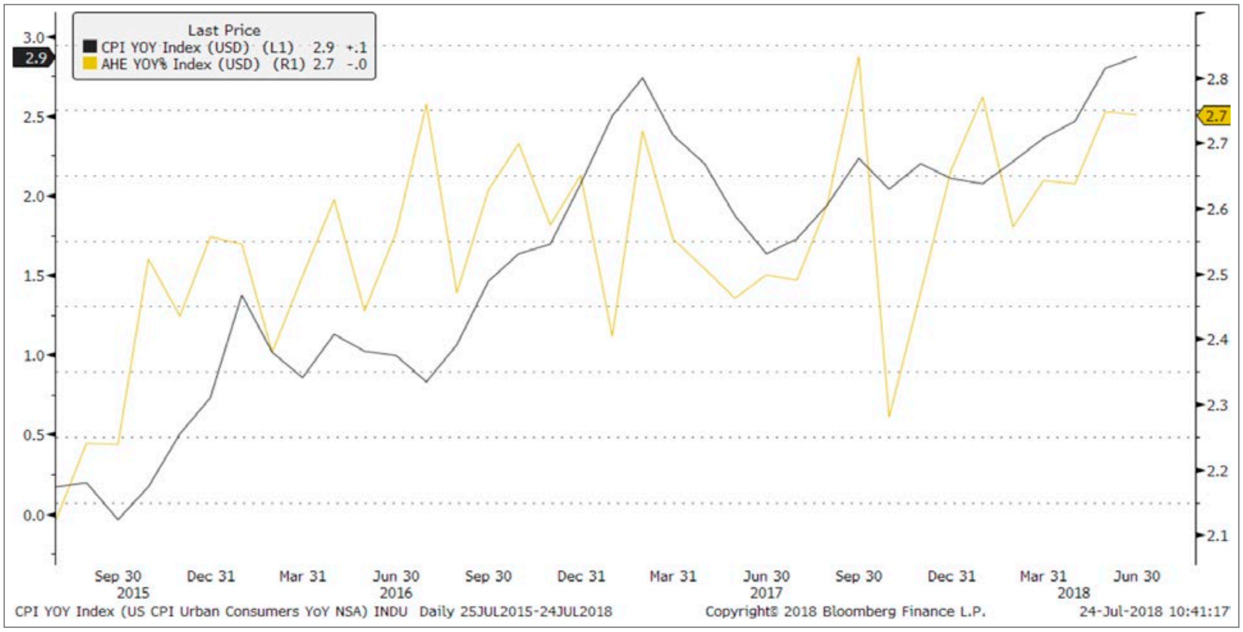
In the past, U.S. trade wars have often hurt those they were meant to protect: American consumers and producers. The automotive revolution in the 1920s resulted in massive job losses for horses, mules and people employed in the horse carriage industry. Grazing land was freed up for agriculture resulting in an agricultural boom. Record quantities of crops were produced. Eager to protect its farmers, U.S. lawmakers passed the Smoot-Hawley Tariff Act in June 1930. More than 3,200 goods were impacted by these tariffs. The pleas of the economists and even pushbacks from President Herbert Hoover did not result in a light-bulb moment for the Republican lawmakers in power. Unsurprisingly, America's trade partners retaliated with their own tariffs. Three years later, U.S. imports had decreased by 66% while exports had decreased by 61%. Ironically, those that were most impacted by Smoot-Hawley was the group the Act meant to protect – the farmers.

Following the election of Trump, Whirlpool lobbied the administration to "even" out the playing field for washers and dryers. LG and Samsung had been dominating this segment in recent years. On January 23, 2018, the Trump administration imposed tariffs as high as 50% on imported washers and dryers. Shares of Whirlpool hit their 2018 YTD highs on January 26, 2018, closing at $183.20. At the end of Q2, shares of Whirlpool stood at $146.33, declining more than 20%. While craving protectionist measures, Whirlpool wasn't ready for a trade war as rising costs of steel and aluminum led to increased costs. While washer-dryer prices have increased by 20% in the three months leading to June, Whirlpool's profits are in decline and consumers are now paying more for their washing machines. In the meantime, Korea is not happy either as it is exporting fewer washing machines into the U.S. Trade wars are complex because the consequences of poorly thought out actions can be disastrous.

Gold May Prove to be the Ultimate Winner

Gold, however, may prove to be the ultimate winner given the most recent trade conflicts. Futures positioning in gold is at a trough. GLD options pricing seems to indicate a level of negativity, which has previously coincided with lows in gold. Recently, we have seen the producer price index (PPI) continue to climb as other American producers are seeing rapid cost inflation. The consumer price index (CPI) is now rising faster than wage inflation, which is likely to make the average American feel worse off than they did two years ago.

Figure 3: Inflation is Overtaking Wage Growth



Source: Bloomberg (July 2015 – July 2018). AHE YOY% measures wage growth and represents the U.S. Average Hourly Earnings All Employees Total Private Yearly Percent Change SA; CPI represents the Consumer Price Index, and is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The expected 2018 $804 billion U.S. budget deficit represents a 17% increase over 2017. Surprisingly, despite a strong U.S. dollar, demand for U.S. Treasuries is near multi-year lows as measured by the bid-to-cover ratio. It could be that sovereigns such as China and Japan who have traditionally recycled their U.S. profits into U.S. Treasuries are no longer choosing to do so. The lack of demand for U.S. debt at a time when U.S. fixed-income yields are higher than debt yields of other developed economies like Germany, France, Canada and Japan is quite striking. The structural takeaway for us is simple: The recent strength in the U.S. dollar is likely to prove to be short-lived.

Unfortunately, the trends we described above play out significantly slower than the speed of a Trump tweet. Fortunately, this allows investors plenty of time to position their portfolios appropriately. We are confident that we have the necessary elements in place to provide the robust underpinnings for a durable bull market for precious metals and precious metal equities.

Authored by Shree Kargutkar, Portfolio Manager, Sprott Asset Management LP
July 25, 2018

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

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

[3] 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.

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