

December 2017

Options as a Hedging Tool

John Wilson

Managing Partner, Senior Portfolio Manager

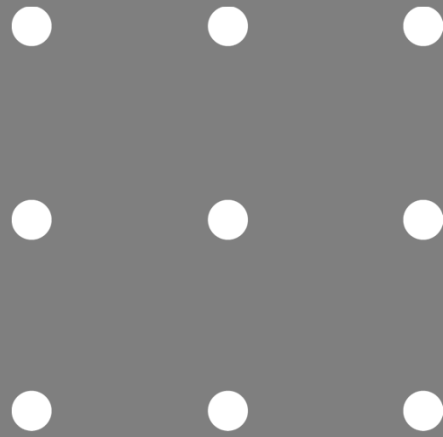


Who we are

- Ninepoint Partners LP (Ninepoint) management and operations team originated from Sprott Asset Management (SAM)
- Ninepoint has assumed portfolio management of the Canadian diversified assets of SAM
- Offer resource & precious metals strategies from SAM on exclusive sub-advisor basis
- Focused on building innovative investment solutions that strive to:
 1. add unique value to your portfolios
 2. help differentiate your business

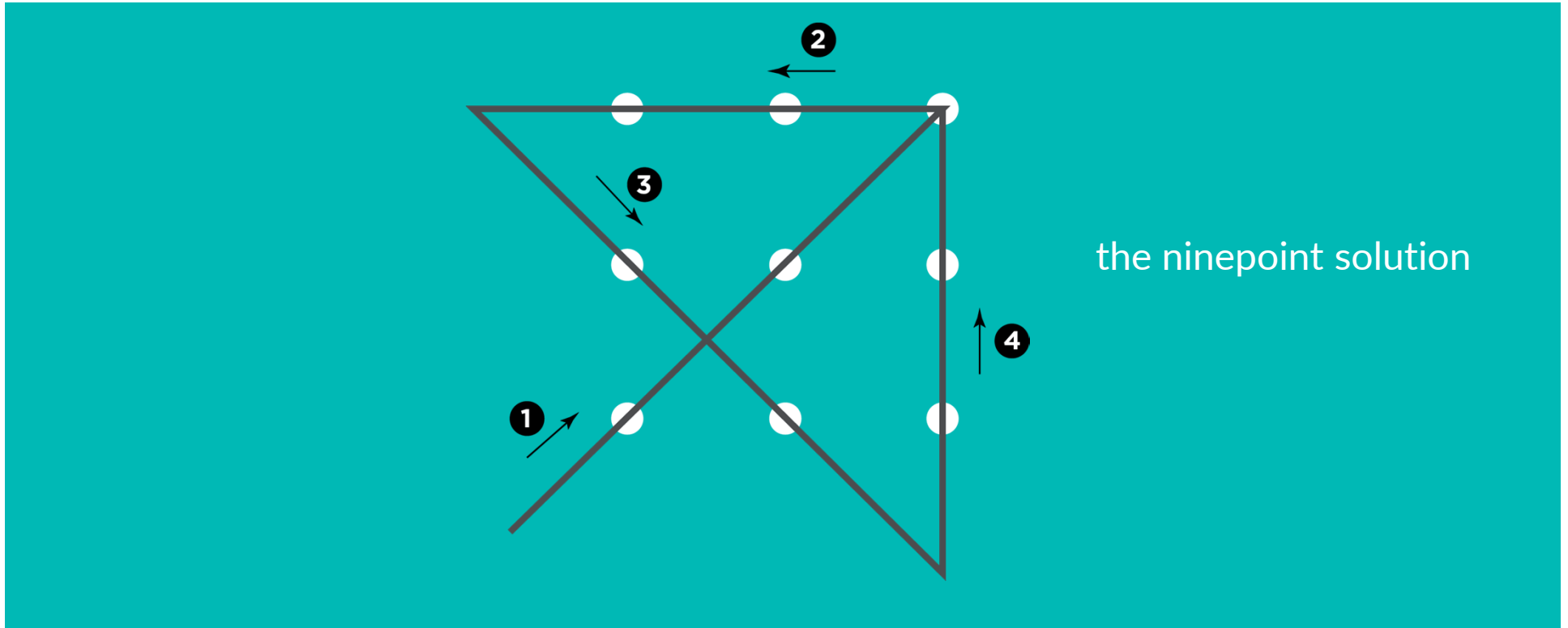


Why ninepoint?



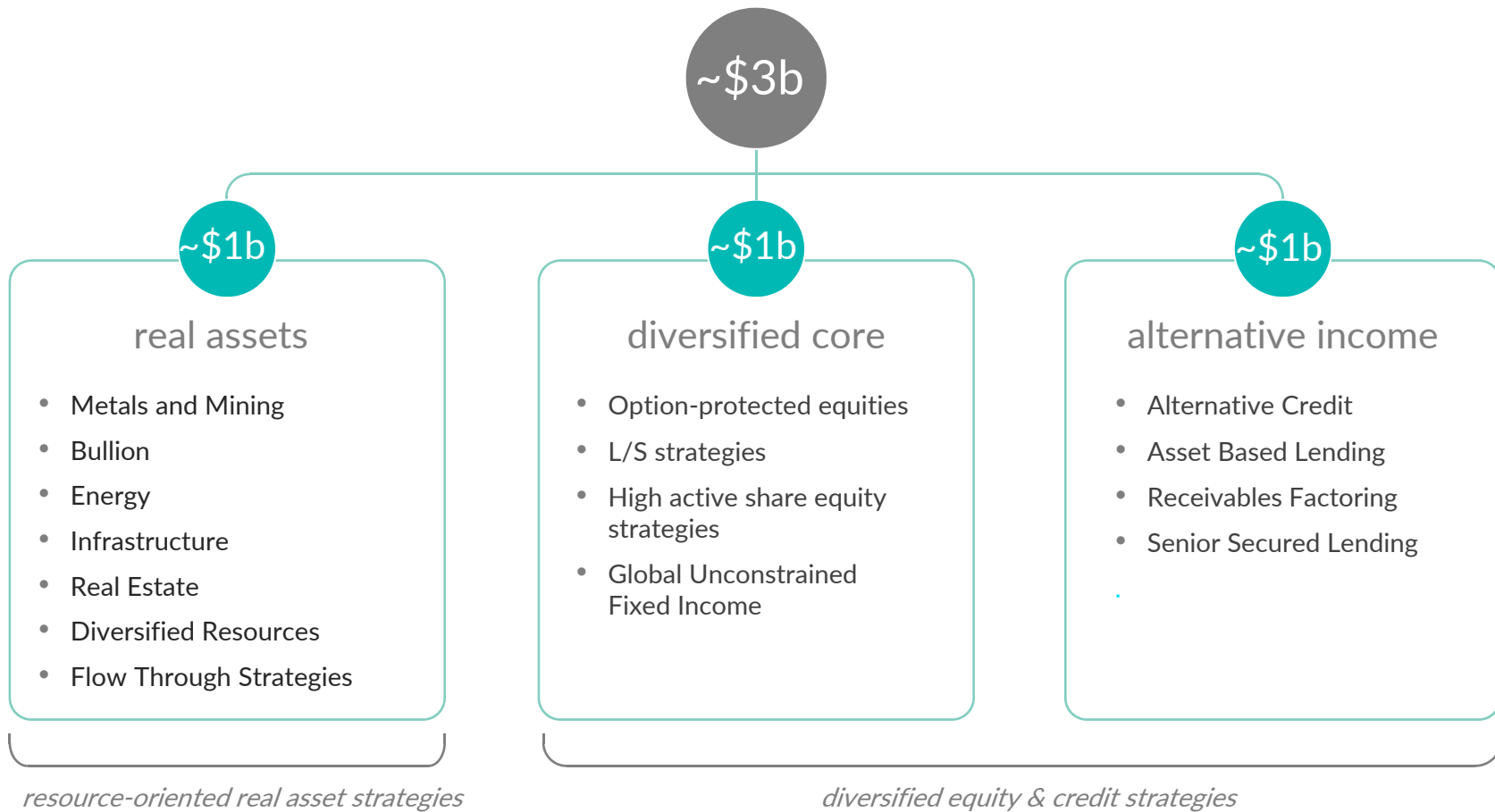
the ninepoint puzzle

Outside the box thinking



Active alternative funds business

actively managed strategies that have the potential to enhance risk/return and diversify core portfolios



Current conditions can give clues to the future

Look around, and ask yourself: Are investors optimistic or pessimistic?

Do the media talking heads say the markets should be piled into or avoided?

Are novel investment schemes readily accepted or dismissed out of hand?

Are securities offerings and fund openings being treated as opportunities to get rich or possible pitfalls?

Has the credit cycle rendered capital readily available or impossible to obtain?

Are price/earnings ratios high or low in the context of history, and are yield spreads tight or generous?

All of these things are important, and yet none of them entails forecasting.

We can make excellent investment decisions on the basis of present observations, with no need to make guesses about the future.

Howard Marks

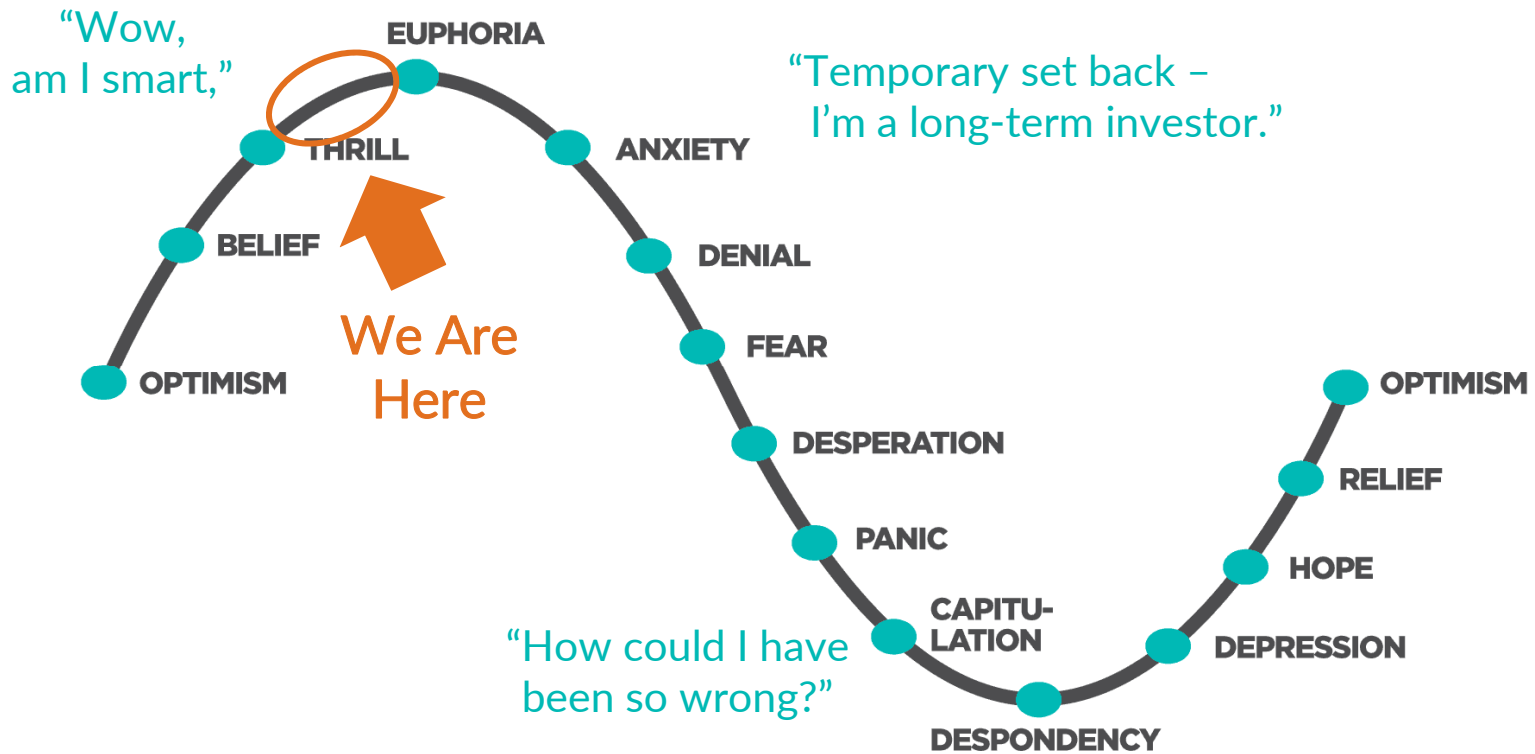
Chairman

Oaktree Capital Management Ltd



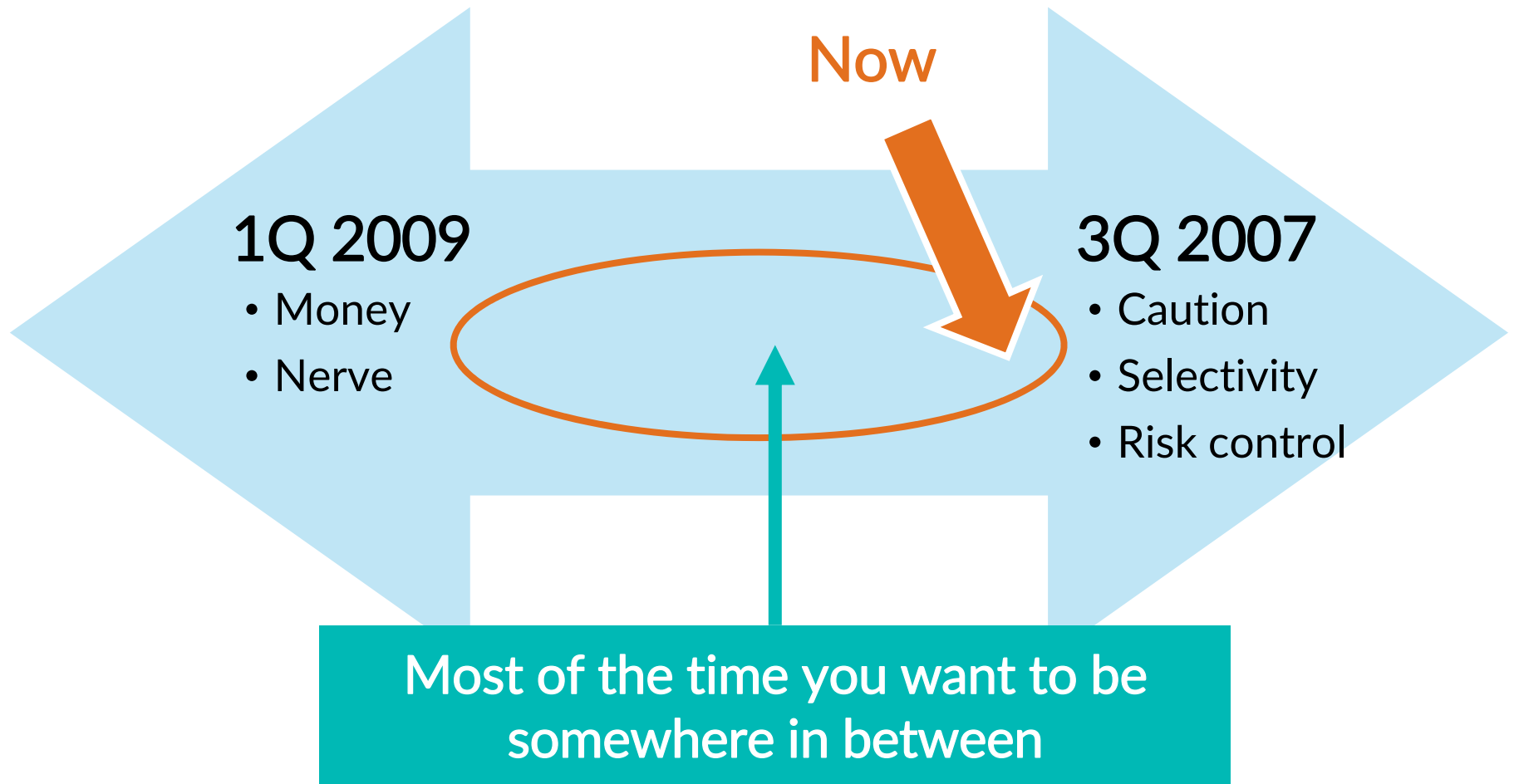
We are **at least** at the “Thrill” stage

Point of Maximum Financial Risk

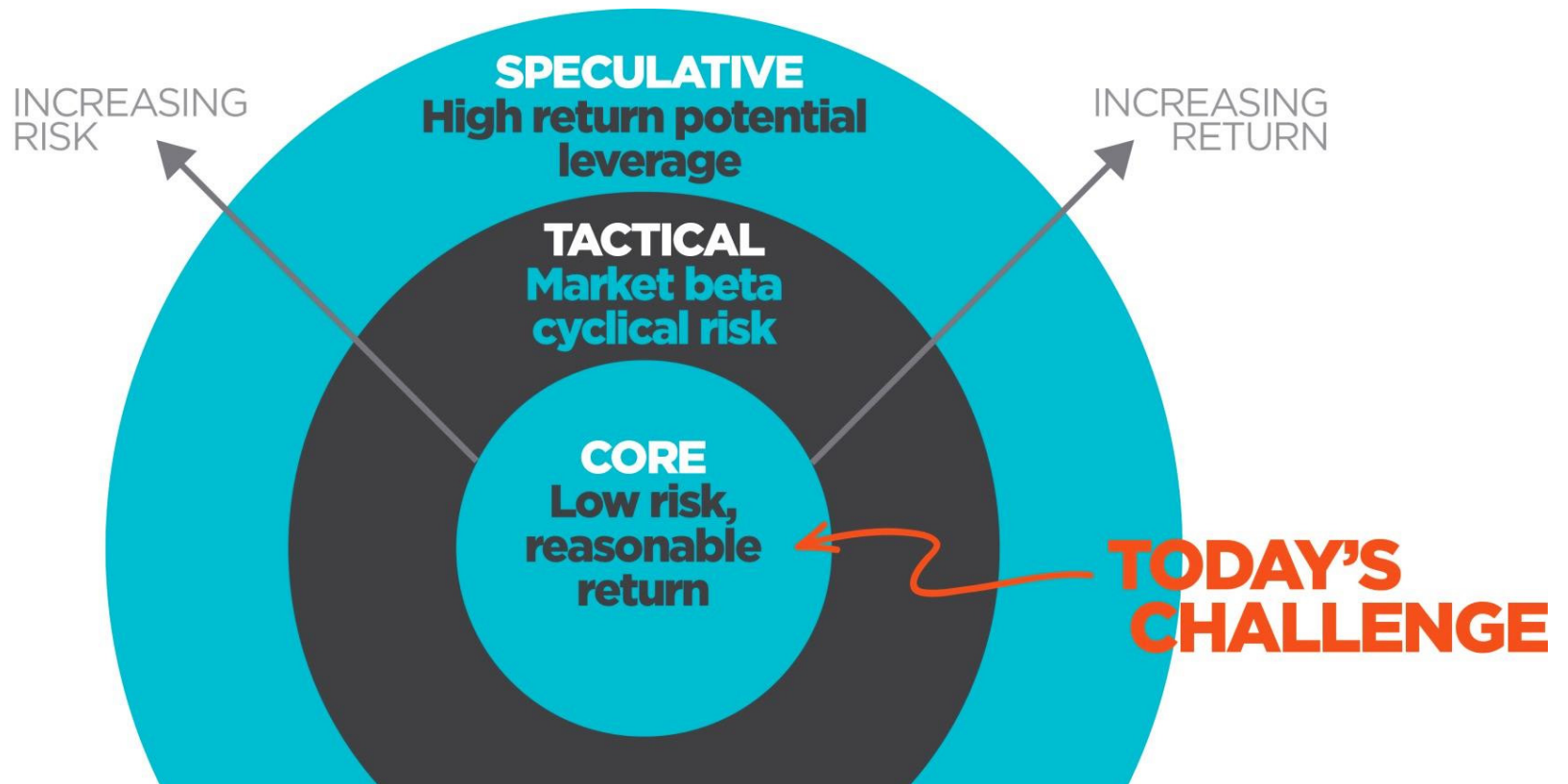


Point of Maximum Opportunity

Attributes For Managing Money



Typical Portfolio Construction



Enhanced Strategy Goals







1. **RISK:** Protect against large drawdowns *regardless of market conditions*
2. **RETURN:** Positive, non-correlated compounding
3. **VOLATILITY:** Maximize return per unit risk

Provide core equity exposure with managed risk

What is an Option?

- A financial instrument that specifies a contract between two parties for a future transaction on an asset at a specified price
- A buyer of an option gains the right, but not the obligation, to engage in that transaction on or before a certain date
- A seller of an option incurs the obligation to fulfill the corresponding transaction on or before a certain date

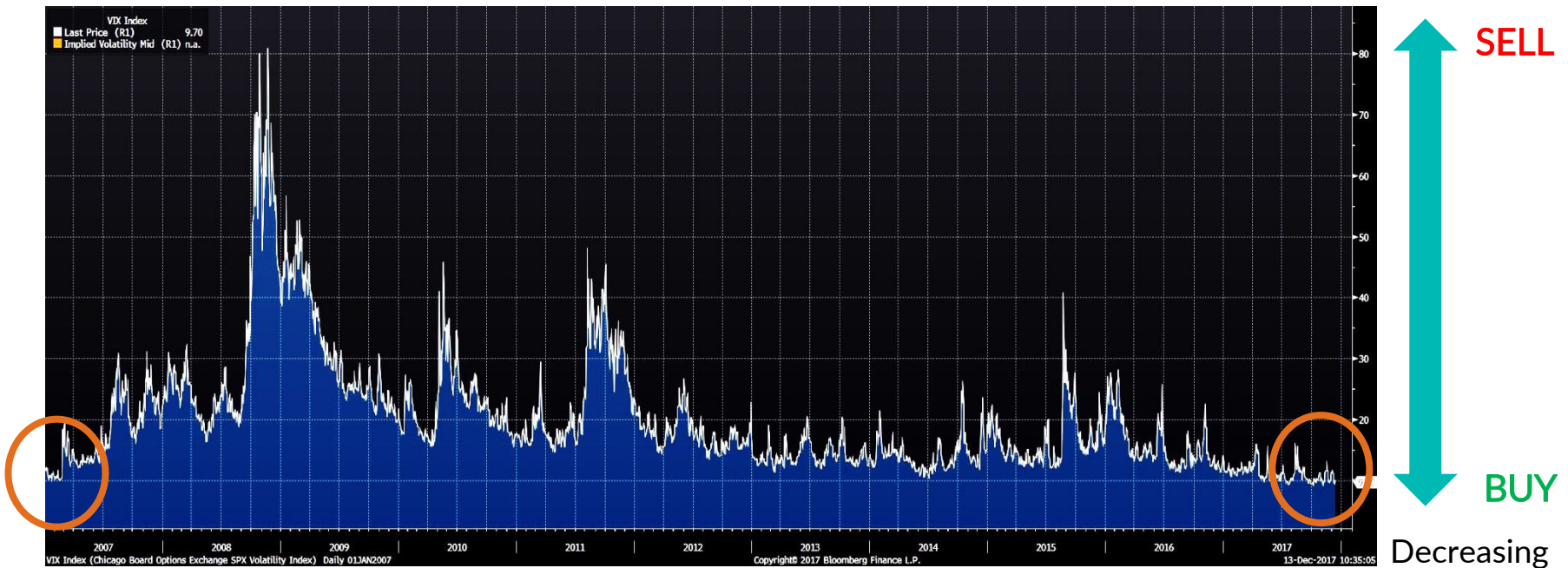
What moves the Option Price?

		Option Price
1. Distance to Strike Price (Delta)		
2. Time to expiry (Theta)		
3. Expected volatility (Vega)		

For illustrative purposes only.

Options: The Marketplace for Volatility

S&P 500 Historical Volatility

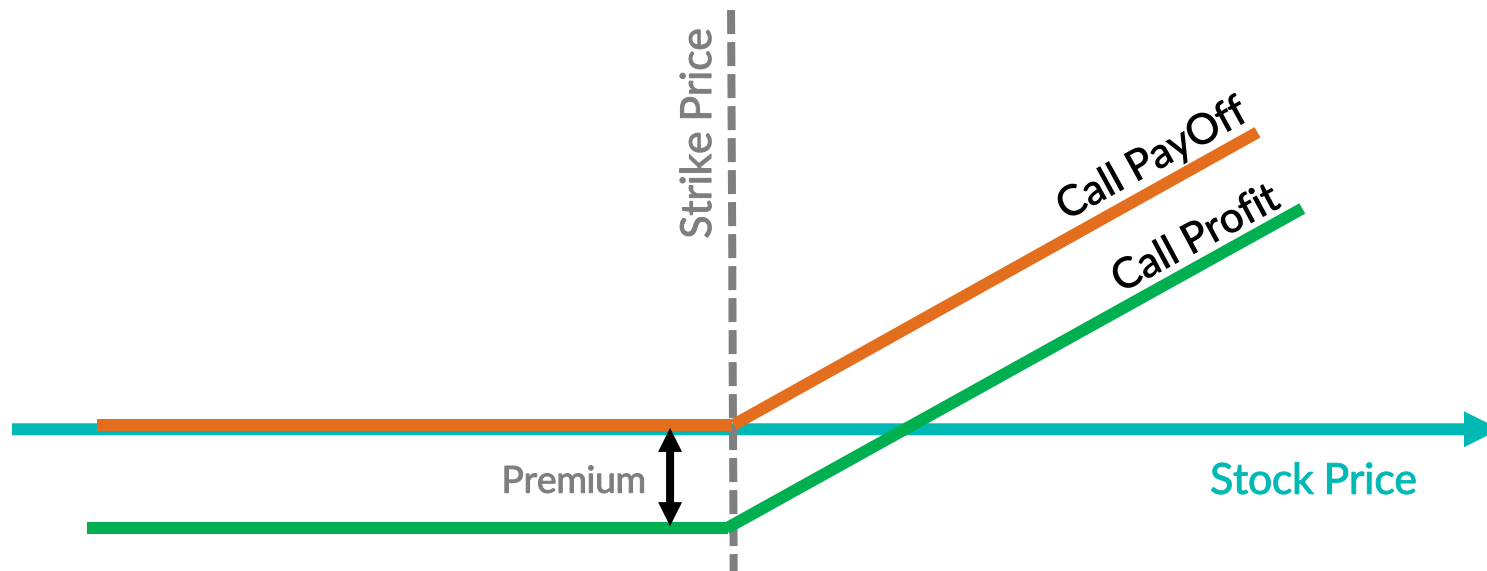


Source: Bloomberg

For illustrative purposes only.

What is a Call Option?

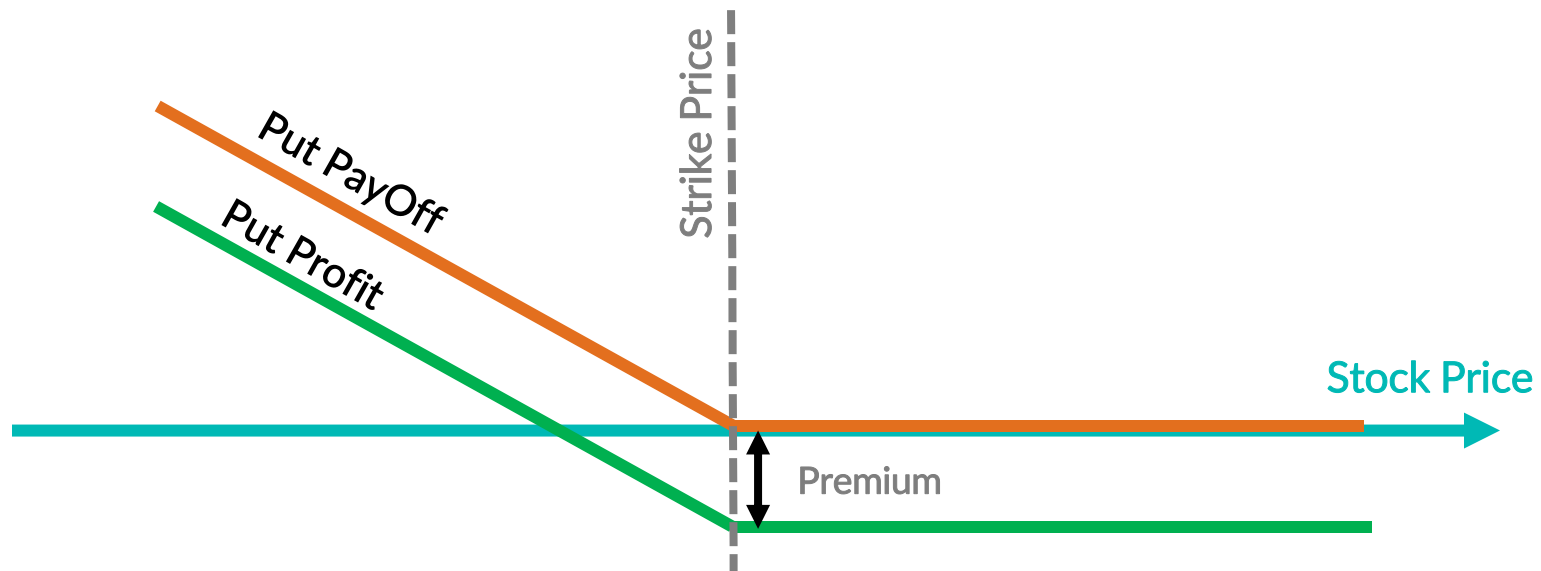
- The buyer of a **Call Option** gets the right, but not the obligation, to **BUY** the underlying stock at a certain price (**Strike Price**) on or before a certain date (**Expiry**)



For illustrative purposes only.

What is a Put Option?

- The buyer of a **Put Option** gets the right, but not the obligation, to **SELL** the underlying stock at a certain price (**Strike Price**) on or before a certain date (**Expiry**)



For illustrative purposes only.

Pros and Cons

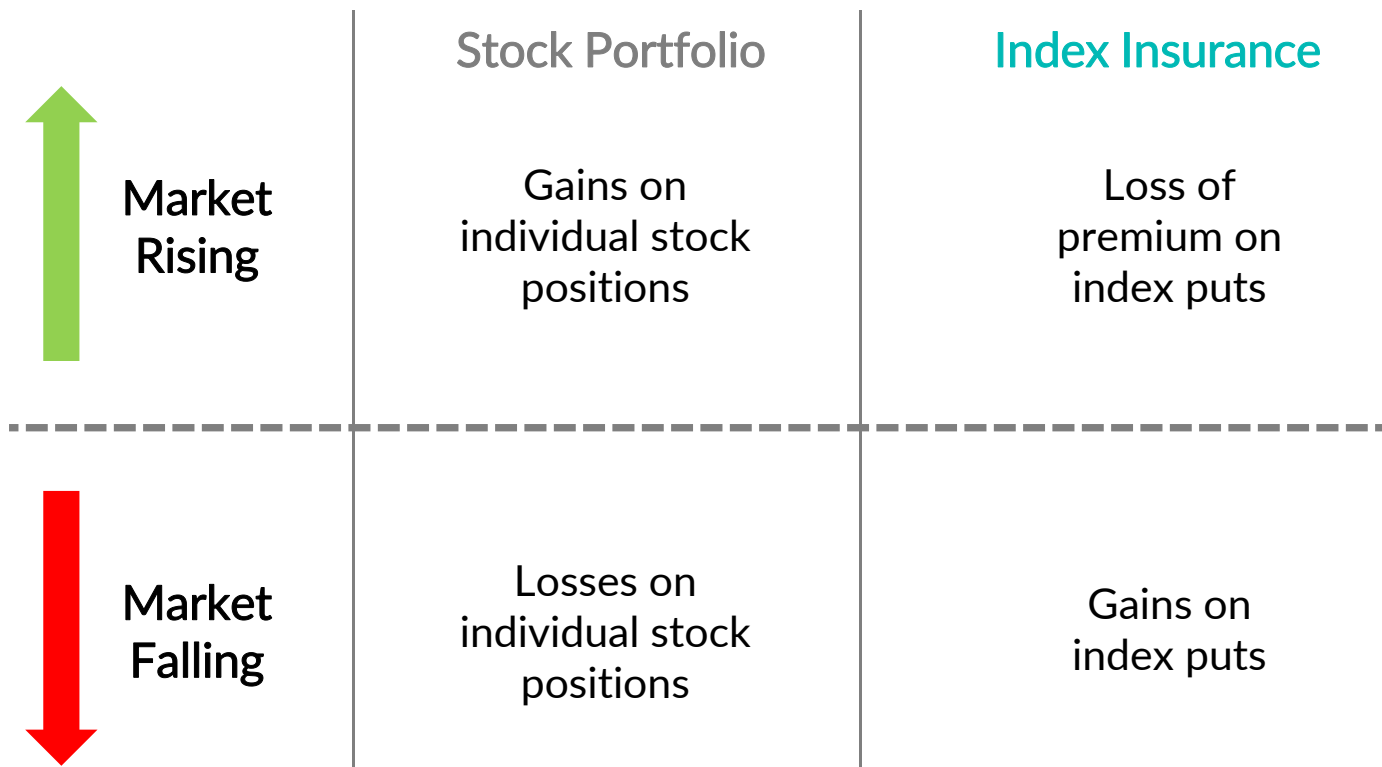
Advantages:

1. Large potential payout relative to small premium paid (leverage)
2. Direct correlation to the underlying asset (hedging or replacement)
3. Wide variety of potential strategies possible thru combining options
4. As delta of an option increases, large positive changes in the option price can occur very quickly

Disadvantages:

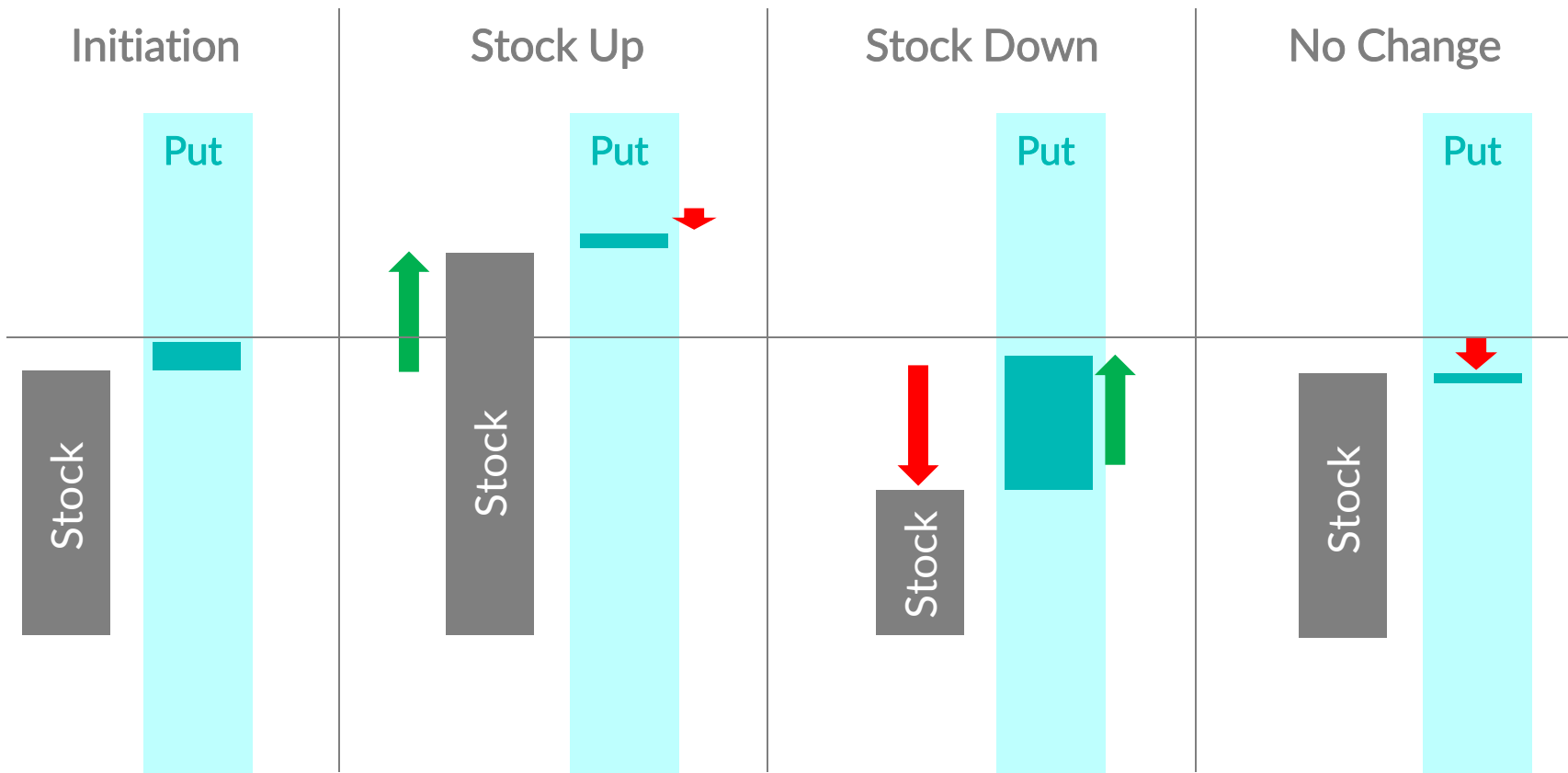
1. Always losing value with time
2. Potential to lose 100% of premium paid if option expires out of the money
3. As delta of an option increases, large negative changes in the option price can occur very quickly

Our strategy: long stocks with market insurance



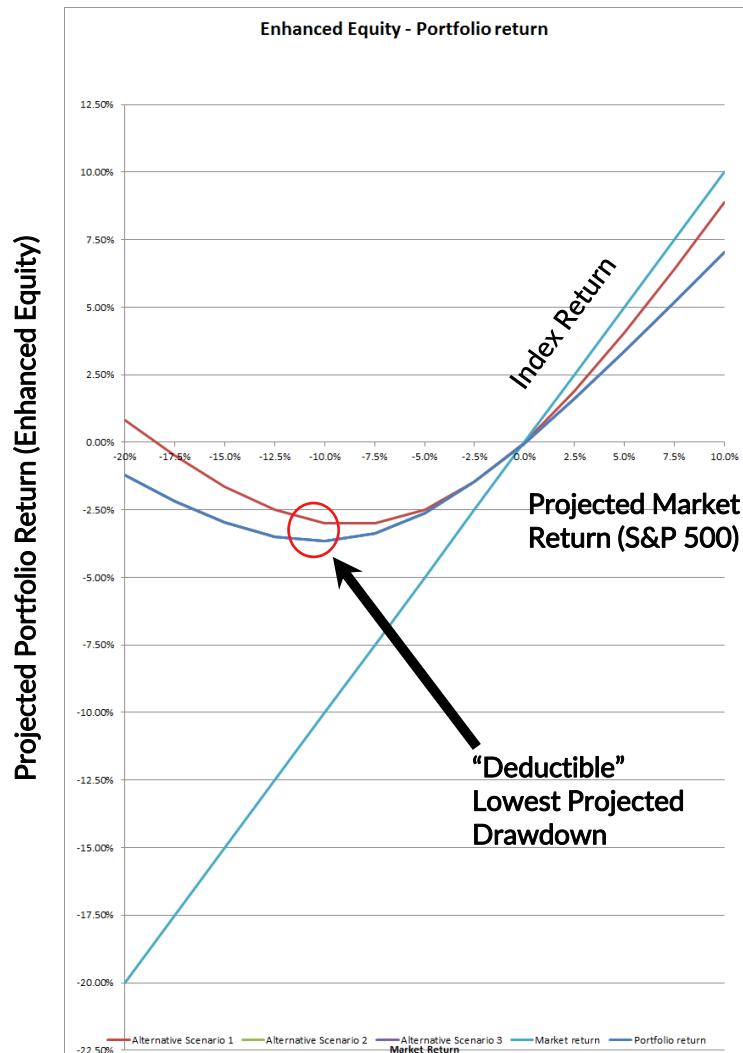
Our Goal:
Reduce Downside Capture much more than Upside Capture

Using a Put Option to hedge downside



Reduce Downside Capture much more than Upside Capture

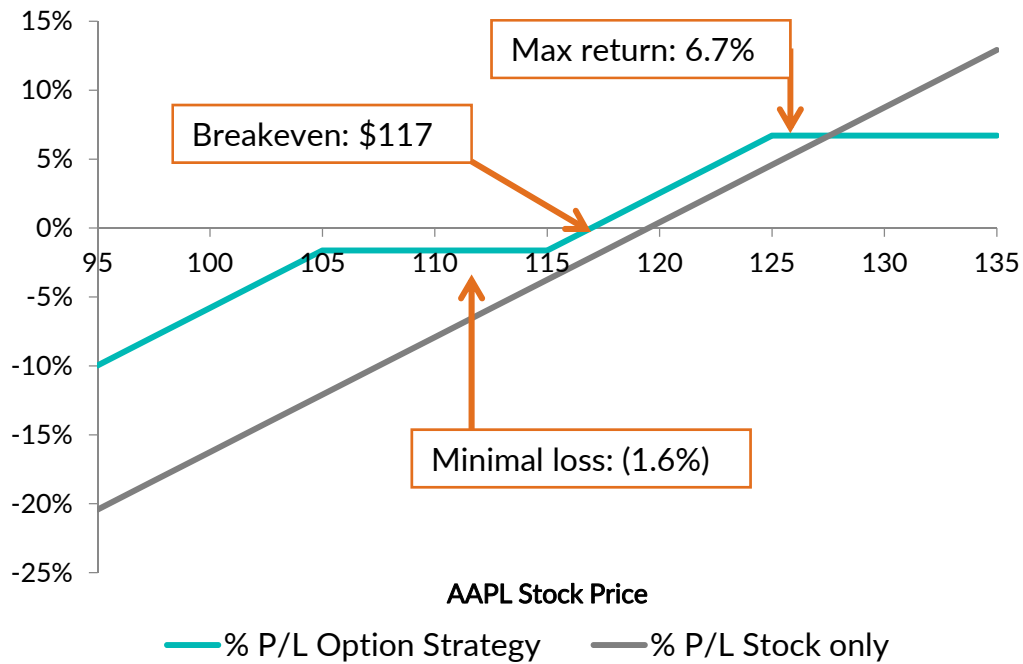
Portfolio Protection from Market Risk



Hypothetical example for illustration purposes.

- Loss curve assumes volatility does not change
- Typically actual portfolio losses should be less than projected as volatility rises when markets drop significantly
- Manage our downside exposure (“Deductible”) to keep maximum loss < 10% target
- Typical portfolio “deductible” ranges between 3%-7%
- Currently using index puts on S&P500

Put Spread Collar: Adding lower risk equity exposure



5-Month Trade	
Stock Return	Strategy Return
4.5%	6.7%
0.0%	2.5%
-12.1%	-1.6%
-18.3%	-7.9%

Strategy Example: AAPL

- Own the stock \$120 + dividend: \$0.50
- Sell \$125 Call : receive \$6.00 premium
- Buy 115/105 put spread: pay \$3.45 premium
- Net proceeds: receive \$3.05 in cash over the next 5 months, or 6.5% annualized

Managing Upside Exposure with Options

- Tax Reform offered 7-10% upside to forward EPS estimates
- Market pricing in ~40% of that upside leaving binary upside/downside if “yes/no vote” occurred
- Upside volatility, trading at all time lows not pricing in even a modest move
- Skew Still Very Steep suggesting tail hedging is active
- **Conclusion:** Cheaper to replace stock with Options than buying Puts to hedge



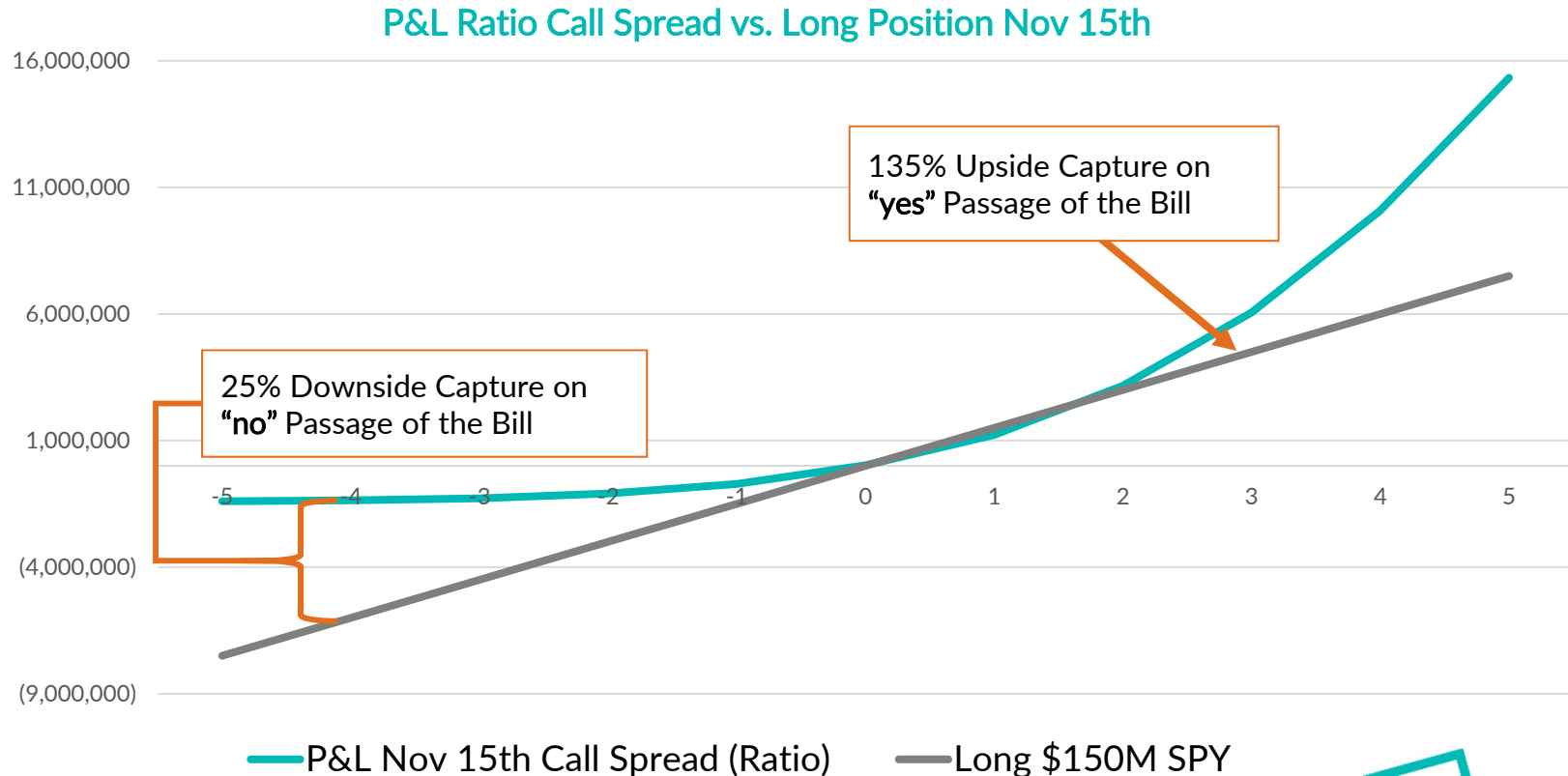
Source: Bloomberg



Managing Upside Exposure with Options

- Trade: Purchase Call spreads to increase Exposure and manage downside risk
- Buy SPY Jan 268 Calls and Sell Jan 270 Call

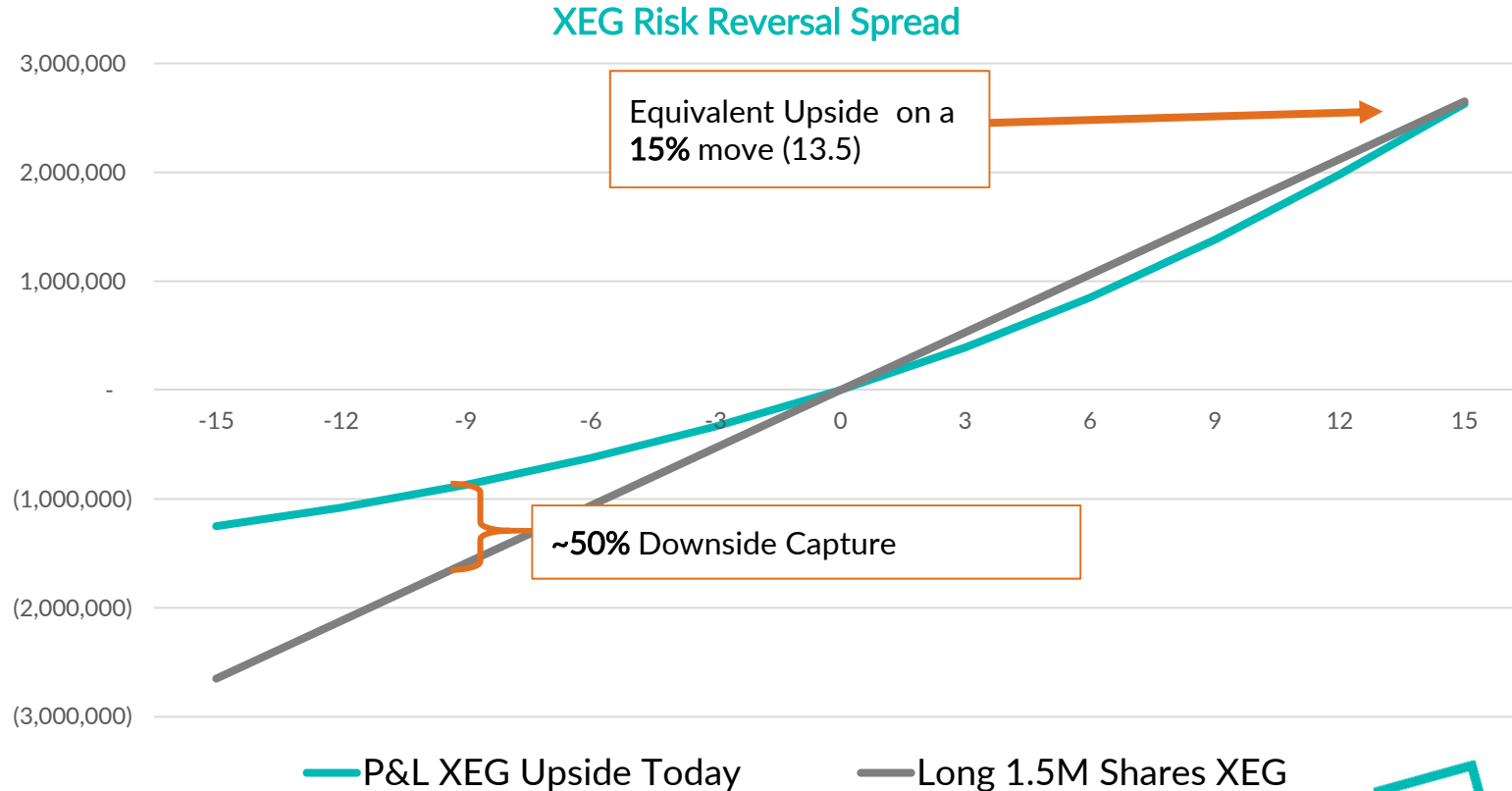
SPY US 01/19/18 C268 Equity	60,240	Buy
SPY US 01/19/18 C270 Equity	(23,760)	Sell



Managing Upside Exposure with Options

- Trade: Sell Put Spread to Purchase Call on the XEG Energy ETF

XEG CN 02/16/18 P10.75 Equity	20,000 Buy	} Sell Put-Spread: Receive 18 cents
XEG CN 02/16/18 P11.5 Equity	(20,000) Sell	
XEG CN 02/16/18 C12.25 Equity	20,000 Buy	← Use Proceeds to Purchase Calls: Costs 17 cents



The background is a solid teal color. It features several abstract, semi-transparent geometric shapes in a lighter shade of teal. These shapes include a large L-shaped form on the left side, a smaller rectangular shape in the upper right, and a long, thin rectangular shape extending from the bottom left towards the center. The overall composition is modern and minimalist.

Questions?

Disclaimer

Ninepoint Partners LP is the investment manager to the Sprott Funds (collectively, the “Funds”).

Important information about these Funds, including their investment objectives and strategies, purchase options, and applicable management fees, performance fees (if any), and expenses, is contained in their prospectus. Please read the prospectus carefully before investing. Commissions, trailing commissions, management fees, performance fees, other charges and expenses all may be associated with investing in the Funds. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This communication does not constitute an offer to sell or solicitation to purchase securities of the Funds.

The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Funds may be lawfully sold in their jurisdiction.

The risks associated with investing in a Fund depend on the securities and assets in which the Fund invests, based upon the Fund’s particular objectives. There is no assurance that any Fund will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Fund will be returned to you. The Funds are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Fund’s prospectus or offering memorandum before investing.

Disclaimer

Forward-Looking Statements

This presentation contains forward-looking statements which reflect the current expectations of management regarding future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as “may”, “would”, “could”, “will”, “anticipate”, “believe”, “plan”, “expect”, “intend”, “estimate”, and similar expressions have been used to identify these forward-looking statements. These statements reflect management’s current beliefs with respect to future events and are based on information currently available to management. Forward-looking statements involve significant known and unknown risks, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward-looking statements contained in this document. These factors should be considered carefully and undue reliance should not be placed on these forward-looking statements. Although the forward-looking statements contained in this document are based upon what management currently believes to be reasonable assumptions, there is no assurance that actual results, performance or achievements will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this presentation and Ninepoint Partners LP does not assume any obligation to update or revise.

The opinions, estimates and projections (“information”) contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners LP makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners LP assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners LP is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances.

Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners LP. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners LP is or will be invested.

Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Contact Information

Ninepoint Partners LP

Royal Bank Plaza, South Tower
200 Bay St. Suite 2700
Toronto, Ontario M5J 2J1

T: 416 943 6707

Toll free: 866 299 9906

F: 416 943 6497

Email: invest@ninepoint.com

Web: www.ninepoint.com