Sprott

Special Report

November 15, 2019

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Five Reasons Why Gold Stocks Make Sense

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Gold mining stocks have soared approximately 30% so far in 2019, based on the performance of the NYSE Arca Gold Miners Index (GDM) as of November 15.[1] Over the last 12 months, the sector is up nearly 50%. Some investors may assume that gold stocks have run their course. On the contrary, we think that the gold mining equities still have a great deal of upside to offer.

In brief, we think we're in the early stages of a prolonged bull market for gold. While the relationship between the prices for gold bullion and gold stocks isn't a linear one, rising demand for the yellow metal commodity has historically driven stock performance. Moreover, despite the recent rally, gold mining stocks have yet to recover from the beating they suffered starting in 2011. Still, recent outperformance — coupled with improving fundamentals — creates momentum, a key factor in many quantitative strategies.

Gold has been a store of value since the beginning of civilization, and yet the nuances of investing in gold — be it the metal or miners — is still a source of confusion. As we see it, that also means opportunity.

Here are five reasons to consider investing in gold equities now.

REASON #1. Rising Gold Prices Drive Demand

Figure 1. Gold Bull Market is Just Getting Started

Source: Bloomberg as of 11/15/19. Gold was $1,514 on 11/1/19, and $1,468 as of 11/15/19.

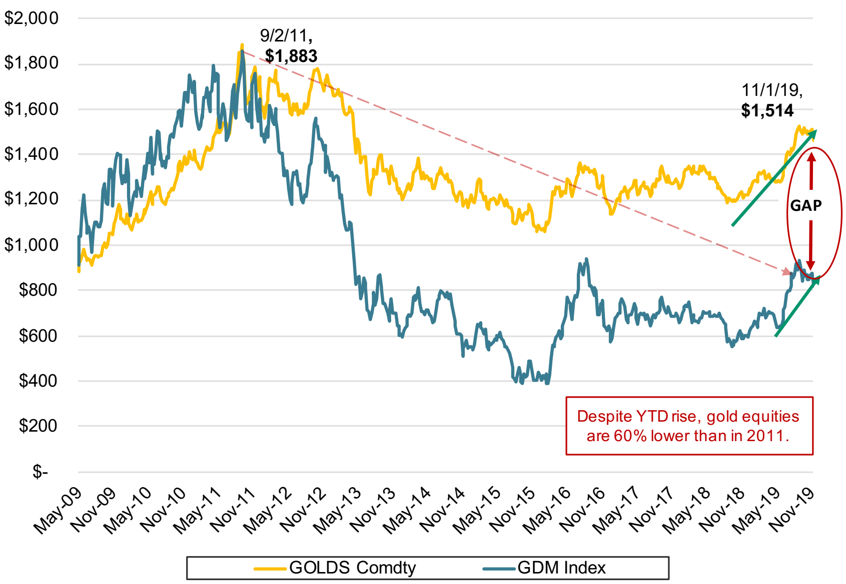
Gold recently broke past $1,500 an ounce for the first time since 2013 (Figure 1), as global political and macroeconomic trends are driving demand for the yellow metal. Along with other strategists, we think gold bullion could surpass its all-time high of $1,900 within the next couple of years. Key factors driving long-term demand for gold as a store of value and defensive asset, especially among central banks and institutions, include low-to-negative interest rates, rising debt levels, trade tensions and intensifying geopolitical risk.

Price movements for physical gold and gold-mining stocks aren't perfectly in sync, but the relationship between them is strong and persistent, across economic cycles.

Historically, rising (and falling) gold prices have a three-times multiplier effect on gold stocks: If the value of gold bullion increases by 10%, mining stocks tend to increase by 30%, and vice versa. The reason: Miners have significant fixed operating costs and high operating leverage, meaning big swings in physical gold prices have a larger impact on miners' profitability.

This relationship cuts both ways, as we saw after physical gold prices peaked in late 2011. As the value of gold subsequently declined (Figure 2), the value of gold stocks plummeted even more. Between 2011 and 2018, the sector posted negative returns in six out of eight calendar years. Even with recent gains, gold mining stocks have yet to recover relative to historical valuations. Since the sector peak in April 2011, gold mining equities are still off by more than 60%.

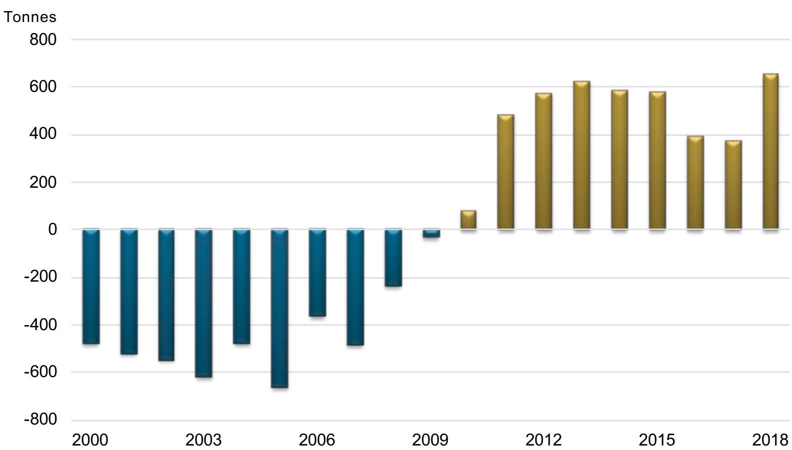
Figure 2. Gold Mining Equities are Very Undervalued



Source: Bloomberg as of 11/12/19.

Figure 3. Gold Demand Has Rebounded: Purchases by Central Banks

Central banks have been net buyers of gold over the past 10 years. Gold plays an important part in central banks' reserves management, and they are significant holders of gold. According to the World Gold Council: "Today, central banks own almost 34,000 tonnes (t) of gold, making it the third-largest reserve asset in the world. The increase in central bank demand for gold reflects current geopolitical, political and economic conditions, as well as structural changes in the global economy. Gold is both a liquid, counter-cyclical asset and a long-term store of value. As such, it can help central banks meet their core objectives of safety, liquidity and return."



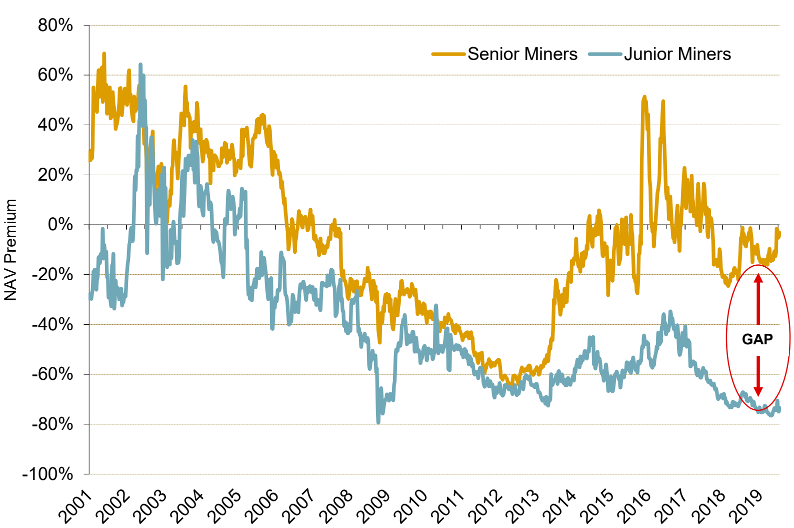
Source: Metals Focus, Refinitiv GFMS, World Gold Council. As of June 30, 2019.

REASON #2. Gold Stocks are Severely Undervalued

Given the amplified volatility of gold stocks relative to gold, investors need to go in with their eyes wide open. Nevertheless, multi-year declines may now set the stage for significant upside.

While miners as a group still trade below their net asset values, the discounts of smaller, "junior" miners are especially extreme, as much of the recent rally has been driven by the largest, "senior" gold miners. In fact, the valuation gap between North American junior and senior gold miners is the widest it's ever been.

Figure 4. The Valuation Gap Between Senior and Juniors is at Historic Extremes



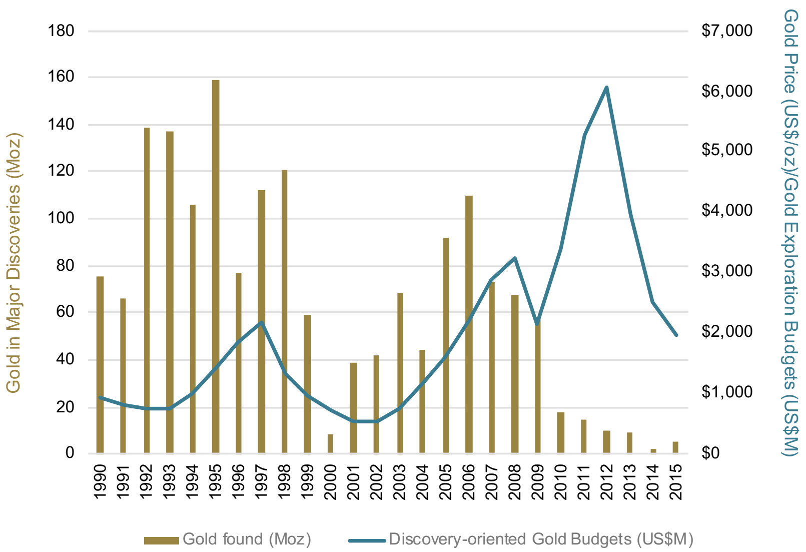
Source: BMO Capital Markets, FactSet. North American senior vs. junior gold miners. As of 7/19/19.

REASON #3. Supplies are Limited

Most investors grasp the importance of investing in companies whose business models are protected by "competitive moats." Gold miners have this in spades, as it can take 15 years from discovery of a new gold mine to successful ore production. The barriers to entry are enormous for newcomers in this sector, given the need for expensive and specialized equipment, environmental regulations and political considerations.

Meanwhile, the supply of gold is finite and there have been increasingly fewer gold discoveries in recent years. This dynamic — combined with depressed valuations of junior gold miners — is driving consolidation in the industry. It is far cheaper for senior miners to buy new gold production than to "build" capacity themselves. In fact, based on an analysis of recent transactions, there is a 35% discount for buying ounces in the market via acquisitions versus discovering new ounces (according to Scotiabank).

Figure 5. Major Gold Discoveries have Declined Significantly



Source: © Copyright by SNL Metals & Mining 2016. All rights reserved.

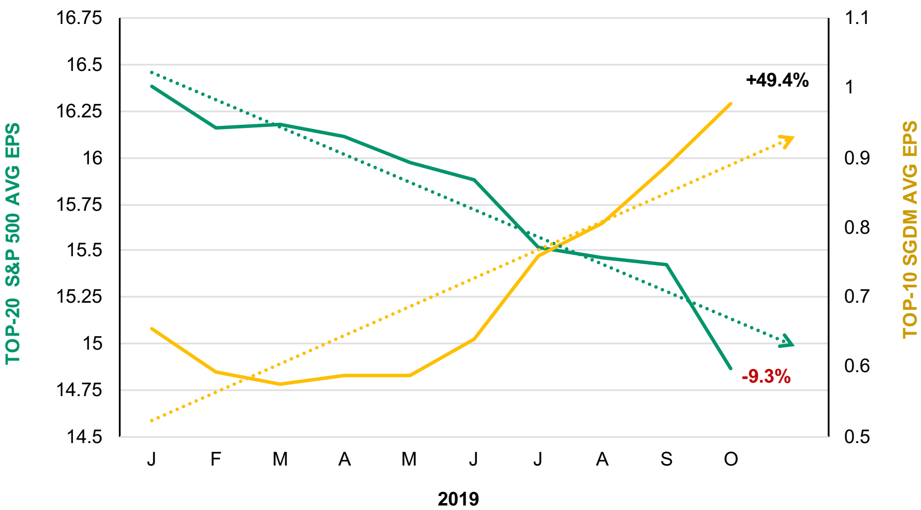
REASON #4. Momentum May Turn Positive

Investors love momentum — following positive trends in prices, earnings and other factors — and the rise of quantitative strategies has made this market phenomenon even more pervasive. For the last eight years, momentum has largely worked against the gold mining sector, but now there are signs the wind is shifting, and that momentum could soon work in its favor.

Analysts covering the sector have understandably been conservative in their estimates and may soon be playing catch up, given higher gold prices and a leveling off of mining costs. Any improvements in earnings outlooks could potentially accelerate positive momentum for the sector. As my colleague Paul Wong wrote earlier this month in The Sweet Spot for Gold Equities: "At this stage in the gold cycle, we are in the sweet spot for gold mining company earnings. A starting low gold price base will result in earnings changes with a high percentage increase when measured quarter-over-quarter or year-over-year."

In Figure 6, we highlight the progression of 2020E EPS (estimates of earnings-per-share) revisions for the top-10 gold mining companies in SGDM[2] versus the average 2020E EPS for the top-20 companies in the S&P 500 Index.[3] Since January 2019, the average 2020E EPS for the top-10 gold mining companies had increased from $0.65 to $0.98 by the end of October, representing a 50% jump, compared to a decline of 9% for the S&P 500. After the Q3 reporting season, we would expect that 2020E EPS for gold miners will be revised even higher.

Figure 6. Sweet Spot for Gold Mining Company Earnings



Source: Bloomberg as of 10/31/19.

REASON #5. Gold Stocks Play a Different Role than Bullion

As with any investment, it's important to think about the role of gold stocks in the context of a broader portfolio. One common misconception is that gold stocks and physical gold are two sides of the same coin. While their fates are certainly correlated, as asset classes they could not be more different.

Physical gold, whether it's in the form of coin, bar or a trust (for example, Sprott Physical Gold Trust, NYSE Arca: PHYS), should be viewed as a stable store of value. It's counter-cyclical and has proven over millennia to be an effective hedge against market turbulence and volatility.

As such, we recommend that investors allocate between 5% to 10% of their assets to physical gold and precious metals.

Gold stocks, conversely, should be viewed in the context of an investor's overall equity portfolio; the size of the allocation will depend on many factors, including risk tolerance. Strategists advocate owning gold stocks continuously, in part because they have low correlations to the broader market. However, most investors view gold stocks as tactical investments. When valuations are severely depressed, as they are now, gold stocks may have the potential to outperform.

At Sprott, we believe that it may be time to consider investing in gold stocks, in addition to physical gold.

[1] Based on the performance of the NYSE Arca Gold Miners Index (GDM), a rules-based index designed to measure the performance of highly capitalized companies in the Gold Mining industry.

[2] Sprott Gold Miners Exchange Traded Fund (NYSE Arca: SGDM) seeks investment results that correspond (before fees and expenses) generally to the performance of its underlying index, the Solactive Gold Miners Custom Factors Index (Index Ticker: SOLGMCFT). The Index aims to track the performance of larger-sized gold companies whose stocks are listed on Canadian and major U.S. exchanges.

[3] The S&P 500 Index (SPX) is an index of 505 stocks issued by 500 large U.S. companies with market capitalizations of at least $6.1 billion.

Two Unique ETFs to Invest in Gold Stocks

Sprott ETFs provide investors with access to innovative and unique indexes that are designed to outperform passive market cap-weighted offerings.

Sprott Gold Miners Exchange Traded Fund (NYSE: SGDM) seeks investment results that correspond (before fees and expenses) generally to the performance of its underlying index, the Solactive Gold Miners Custom Factors Index (Index Ticker: SOLGMCFT). The Index aims to track the performance of larger-sized gold companies whose stocks are listed on Canadian and major U.S. exchanges.

Sprott Junior Gold Miners Exchange Traded Fund (NYSE: SGDJ) seeks investment results that correspond (before fees and expenses) generally to the performance of its underlying index, the Solactive Junior Gold Miners Custom Factors Index (Ticker: SOLJGMFT). The Index aims to track the performance of small-capitalization gold companies whose stocks are listed on regulated exchanges.

Two Unique Indexes

Each Index is designed using specific Factors that Matter™ for a particular strategy. These customized factors are selected because they have historically proven to be strong predictors of stock performance.

Each Index:

- Seeks to outperform purely passive representations of the gold and silver mining industry.
- Uses transparent, rules-based methodology designed to overweight gold stocks with attractive investment merits relative to the other stocks in the Index.
- The stock selection and index weighting criteria were co-developed by Sprott Asset Management LP, a leading, long-time gold sector investor, and Solactive AG.

SGDM
NYSE ARCA

Sprott Gold Miners ETF

- Stocks weighted in the Index based on quarterly revenue growth and long-term debt to equity.
- Index is reconstituted quarterly.

SGDJ
NYSE ARCA

Sprott Junior Gold Miners ETF

- Stocks weighted in the Index based on revenue growth and price momentum.
- Index is reconstituted semi-annually.

Sprott Gold Miners Exchange Traded Fund

Performance History: Average Annual Total Returns* (%)

MONTH END AS OF 10/31/19	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	S.I.[2]
Sprott Gold Miners ETF (Net Asset Value)	5.27%	5.04%	37.82%	56.15%	3.55%	8.65%	-0.11%
Sprott Gold Miners ETF (Market Price)[1]	5.37%	4.73%	37.96%	55.65%	3.49%	8.63%	-0.14%
Solactive Gold Miners Custom Factors Index TR (Benchmark)[3]	5.30%	5.31%	-	-	-	-	-
Sprott Zacks Gold Miners Index (Legacy Index)[3]	9.95%	12.49%	47.15%	66.98%	6.37%	10.78%	1.75%
S&P 500® Total Return Index	2.17%	2.43%	23.16%	14.33%	14.91%	10.78%	10.68%

QUARTER END AS OF 09/30/19	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	S.I.[2]
Sprott Gold Miners ETF (Net Asset Value)	-10.56%	4.41%	30.92%	47.66%	-1.24%	3.66%	-1.10%
Sprott Gold Miners ETF (Market Price)[1]	-10.72%	4.47%	30.93%	46.97%	-1.34%	3.57%	-1.14%
Solactive Gold Miners Custom Factors Index TR (Benchmark)[3]	-10.40%	-	-	-	-	-	-
Sprott Zacks Gold Miners Index (Legacy Index)[3]	-11.73%	6.32%	33.84%	51.30%	0.00%	4.78%	-0.06%
S&P 500® Total Return Index	1.87%	1.70%	20.55%	4.25%	13.39%	10.84%	10.41%

Expenses as of 07/19/2019

Management Fee	0.35%
Other Expenses[4]	0.28%
Total Annual Fund Operating Expenses	**0.63%**
Fee Waiver/Expense Reimbursement	0.13%
Net Total Expense Ratio[7]	**0.50%**

Sprott Junior Gold Miners Exchange Traded Fund

Performance History: Average Annual Total Returns* (%)

MONTH END AS OF 10/31/19	1 MO	3 MO	YTD	1 YR	3 YR	S.I.[5]
Sprott Junior Gold Miners ETF (Net Asset Value)	4.64%	-2.45%	29.62%	38.95%	-5.63%	7.09%
Sprott Junior Gold Miners ETF (Market Price)[1]	6.01%	-0.89%	30.28%	39.83%	-5.48%	7.23%
Solactive Junior Gold Miners Custom Factors Index TR (Benchmark)[6]	4.67%	-2.18%	-	-	-	-
Sprott Zacks Junior Gold Miners Index – TR (Legacy Index)[6]	7.20%	2.69%	41.11%	51.57%	-2.34%	9.84%
S&P 500® Total Return Index	2.17%	2.43%	23.16%	14.33%	14.91%	10.77%

QUARTER END AS OF 09/30/19	1 MO	3 MO	YTD	1 YR	3 YR	S.I.[5]
Sprott Junior Gold Miners ETF (Net Asset Value)	-9.27%	1.41%	23.87%	28.58%	-8.66%	6.16%
Sprott Junior Gold Miners ETF (Market Price)[1]	-9.71%	1.12%	22.89%	27.50%	-8.98%	5.99%
Solactive Junior Gold Miners Custom Factors Index TR (Benchmark)[6]	-9.19%	-	-	-	-	-
Sprott Zacks Junior Gold Miners Index – TR (Legacy Index)[6]	-13.68%	7.47%	31.64%	36.88%	-6.23%	8.35%
S&P 500® Total Return Index	1.87%	1.70%	20.55%	4.25%	13.39%	10.46%

Expenses as of 07/19/2019

Management Fee	0.35%
Other Expenses[4]	0.46%
Total Annual Fund Operating Expenses	**0.81%**
Fee Waiver/Expense Reimbursement	0.31%
Net Total Expense Ratio[7]	**0.50%**

See following page for footnotes.

Performance data quoted represents past performance. Past performance is no guarantee of future results so that shares, when redeemed may be worth more or less than their original cost. The investment return and principal value will fluctuate. Current performance may be higher or lower than the performance quoted. Call 888.622.1813 for current month end performance.

* Returns less than one year are not annualized.

[1] Market Price is based on the midpoint of the bid/ask spread at 4 p.m. ET and does not represent the returns an investor would receive if shares were traded at other times.

[2] Inception date of 07/15/2014.

[3] Effective 7/22/2019, SGDM began tracking the Solactive Gold Miners Custom Factors Index (SOLGMCFT). Historical Index data prior to 7/22/2019 is for the Sprott Zacks Gold Miners Index (ZAXSGDM). Index data on or after 7/22/2019 is the Solactive Gold Miners Custom Factors Index (SOLGMCFT), which was created by Solactive AG ("Index Provider") to provide a means of generally tracking the performance of gold mining companies whose stocks are traded on Canadian and major U.S. exchanges. An investor cannot invest directly in the Index. SGDM was reorganized from ALPS ETF Trust into Sprott ETF Trust on or about 7/19/19. SGDM is a continuation of the prior fund and, therefore, the performance information shown includes the prior fund's performance.

[4] Other expenses are based on estimated amounts for the current fiscal year and are calculated as a percentage of the Fund's net assets.

[5] Inception date of 03/31/2015.

[6] Effective 7/22/2019, SGDJ began tracking the Solactive Junior Gold Miners Custom Factors Index (SOLJGMFT). Historical Index data prior to 7/22/2019 is for the Sprott Zacks Junior Gold Miners Index (ZAXSGDJ). Index data on or after 7/22/2019 is the Solactive Junior Gold Miners Custom Factors Index (SOLJGMFT), which was created by Solactive AG ("Index Provider") to provide a means of generally tracking the performance of junior gold mining companies whose stocks are traded on Canadian and major U.S. exchanges. An investor cannot invest directly in the Index. SGDJ was reorganized from ALPS ETF Trust into Sprott ETF Trust on or about 7/19/19. SGDJ is a continuation of the prior fund and, therefore, the performance information shown includes the prior fund's performance.

[7] Sprott Asset Management LP, the investment adviser to the Fund, has contractually agreed to waive the management fee, and/or reimburse expenses so that Total Net Expense Ratio After Fee Waiver/Expense Reimbursements (not including distribution (12b-1) fees, shareholder service fees, acquired fund fees and expenses, taxes, brokerage commissions and extraordinary expenses) do not exceed a maximum of 0.50% of the shares average daily net assets through June 30, 2021.

Sprott Monthly Report

November 15, 2019

Sprott | ETFs
Factors *that* Matter™

IMPORTANT DISCLOSURES & DEFINITIONS

An investor should consider the investment objectives, risks, charges and expenses carefully before investing. This must be accompanied or preceded by a Prospectus. Read the Statutory Prospectus carefully before investing.

Sprott Gold Miners ETF and Sprott Junior Gold Miners ETF shares are not individually redeemable. Investors buy and sell shares of the Sprott Gold Miners ETF on a secondary market. Only market makers or "authorized participants" may trade directly with the Fund, typically in blocks of 50,000 shares.

The Funds are not suitable for all investors. There are risks involved with investing in ETFs including the loss of money. The Funds are considered nondiversified and can invest a greater portion of assets in securities of individual issuers than diversified funds. As a result, changes in the market value of a single investment could cause greater fluctuations in share price than would occur in diversified funds.

Micro-cap stocks involve substantially greater risks of loss and price fluctuations because their earnings and revenues tend to be less predictable. These companies may be newly formed or in the early stages of development, with limited product lines, markets or financial resources and may lack management depth.

The Funds will be concentrated in the gold and silver mining industry. As a result, the Funds will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the gold and silver mining industry. Also, gold and silver mining companies are highly dependent on the price of gold and silver bullion. These prices may fluctuate substantially over short periods of time so the Fund's Share price may be more volatile than other types of investments.

Funds that emphasize investments in small/mid cap companies will generally experience greater price volatility.

Funds investing in foreign and emerging markets will also generally experience greater price volatility.

There are risks involved with investing in ETFs including the loss of money.

Diversification does not eliminate the risk of experiencing investment losses.

ETFs are considered to have continuous liquidity because they allow for an individual to trade throughout the day.

ALPS Portfolio Solutions Distributor, Inc. is the Distributor for the Sprott Gold Miners ETF and the Sprott Junior Gold Miners ETF.

ALPS Portfolio Solutions Distributor, Inc. is not affiliated with Sprott Asset Management LP.

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