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Six Reasons to Own Gold Equities Now

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In November 2019, we offered *Five Reasons Why Gold Stocks Make Sense*. Six months have passed and gold miners have climbed steadily, following the positive path we predicted.

Through April 30, 2020, gold mining stocks were up 11.01% year-to-date (YTD) and 57.87% over the 12-month period (YOY).¹ This compares to -12.36% YTD and -7.91% YOY returns for the S&P 500 Index.² In our view, gold mining equities still have a great deal of upside to offer, given that historically gold stocks tend to outperform the metal during gold bull markets (2-3x).

We believe that we are still in the early stages of the current gold bull market which began in May 2019. Rising demand for gold and higher gold prices are followed by strong gold mining stock performance.

Here are Sprott's six reasons why investing in gold equities may make sense right now.

REASON #1. Gold Equities are on the Move, Under the Radar

Gold mining equities, despite their recent outperformance, are being ignored by most investors. This creates a value opportunity. My colleague John Hathaway, Senior Portfolio Manager, summed up this dilemma best in his recent interview with Jim Grant:

"As for gold-mining shares, John Hathaway, co-portfolio manager of the \$1 billion-plus Sprott Gold Equity Fund, reports that interest is exactly nil. The Sprott bullion business is jumping, but not the mining-stock investment business....gold shares, in relation to bullion, are the cheapest they've been in his 20 years in the business: 'What astonishes me — I'm an old value investor — is that so many companies are generating free cash flow, and it is not hard to find companies with free cash flow yields of 10% or better.'"

REASON #2. Gold Stocks are Severely Undervalued

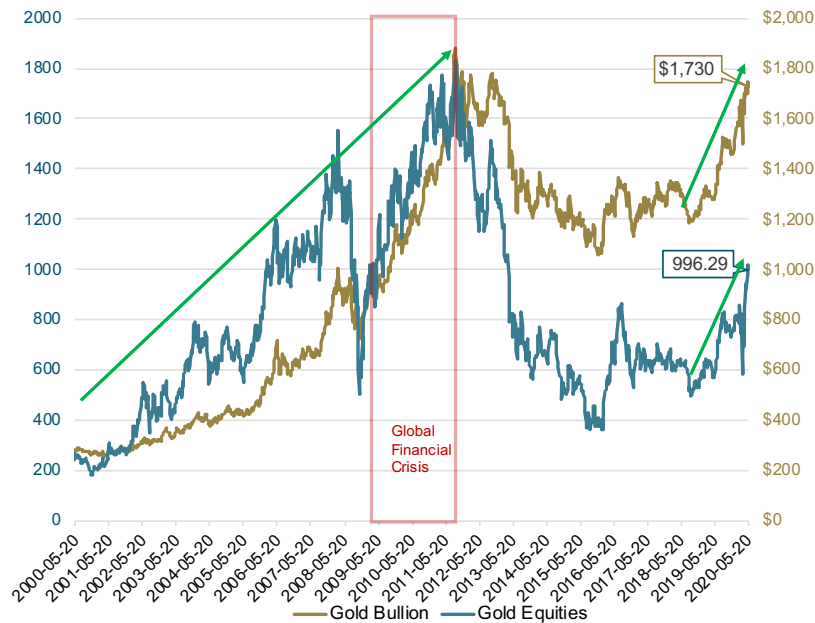
Gold bullion has delivered strong performance in 2020 and was up 11.15% YTD through April 30, 2020, and 31.39% YOY.³ At the same time, as mentioned above, gold mining stocks have risen 11.01% YTD and 57.87% YOY.¹

Gold broke through significant resistance in 2019, and in 2020, gold pushed above \$1,700 in April (Figure 1). Global political and macroeconomic trends ignited this first stage of the gold rally with the economic fallout of COVID-19 acting as an accelerant.

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Figure 1. Gold Bullion and Gold Stocks: A Close Relationship



Source: Bloomberg as of 5/20/2020.

According to the latest research from World Gold Council (WGC), the growth in gold exchange traded funds (ETFs) helped drive global demand for the yellow metal in the first quarter, as the world economy was crushed by the COVID-19 health crisis. Global gold-backed ETFs added 298 tonnes and net inflows of US\$23 billion in Q1 2020 — the highest quarterly amount ever in absolute U.S. dollar terms and the largest tonnage additions since 2006.

Figure 2. Gold-Backed ETFs Reach Record Levels



Source: World Gold Council. Data as of 3/31/2020.

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REASON #3. Gold Equities are Historically Inexpensive

Price movements for physical gold and gold-mining stocks are not entirely in sync, but the relationship between them is strong and persistent, across economic cycles.

Historically, rising (and falling) gold prices have a two- to three-times multiplier effect on gold stocks: If the value of gold bullion increases by 10%, mining stocks tend to increase by 20-30%, 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, which we saw after physical gold prices peaked in late 2011. As the value of gold subsequently declined, the value of gold stocks plummeted even more. Between 2011 and 2018, gold miners posted negative returns in six out of eight calendar years. Even with recent gains, gold mining stocks still have a long way to go to return to historical valuations. Figure 3 shows that since 2008 the relative valuation of gold equities to gold bullion has fallen 73% from the prior 25-year average, from **0.2497x** to **0.0674x**. The green line indicates the current gap and the potential outperformance of gold equities should they revert to the historical mean.

Figure 3. Gold Mining Equities are Undervalued Relative to Bullion

The ratio of XAU Index to Spot Gold (12/23/1983-4/30/2020)



Data as of 4/30/2020. Source: Bloomberg. 12/23/1983 represents the inception of the XAU.

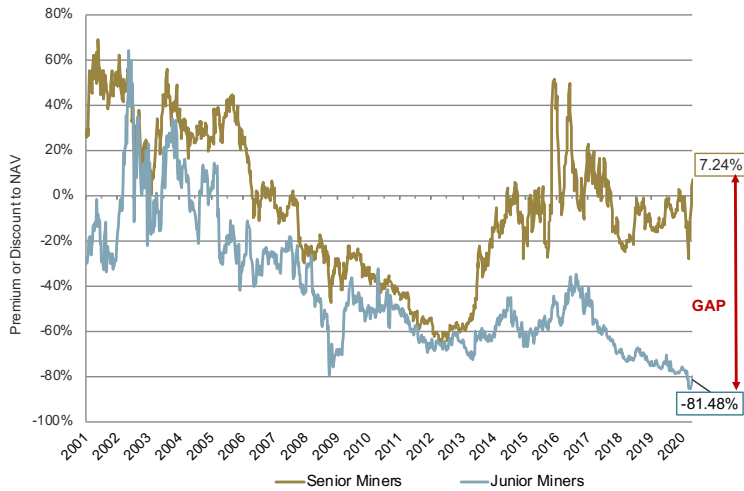
While miners as a group still trade below their net asset values, the discounts of smaller, "junior" miners are especially extreme, as much of the recent rally has been driven by the largest, "senior" gold miners. The valuation gap between North American junior and senior gold miners is the widest it has ever been (Figure 4.)

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Figure 4. Junior Miners are Trading at an 81% Discount

Senior miners are currently trading at a ~7% premium to their underlying net asset values (NAVs), while junior miners are trading at an ~81% discount.



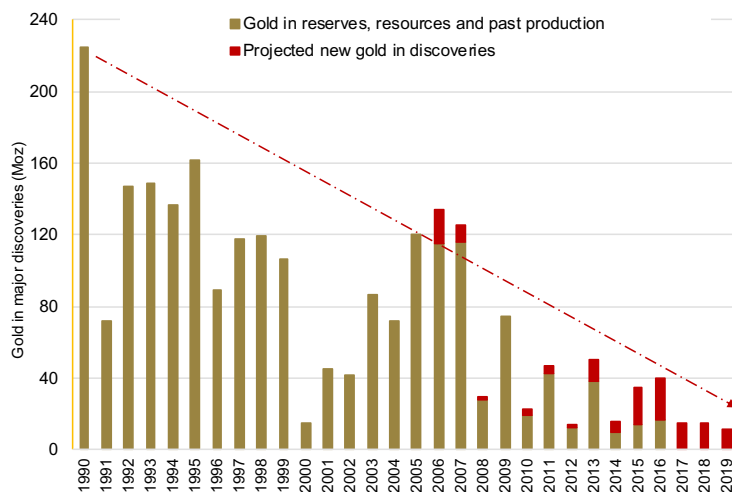
Source: BMO Capital Markets, FactSet. North American senior vs. junior gold miners. As of 4/30/2020.

REASON #4. Supplies are Limited: You Can't Print Gold

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 the 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 approvals and political considerations.

The supply of gold is finite and there have been increasingly fewer large-scale gold discoveries in recent years (Figure 5). 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. 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). Buying reserves eliminates the time and uncertainty associated with exploration.

Figure 5. Annual Global Gold Discoveries Drop



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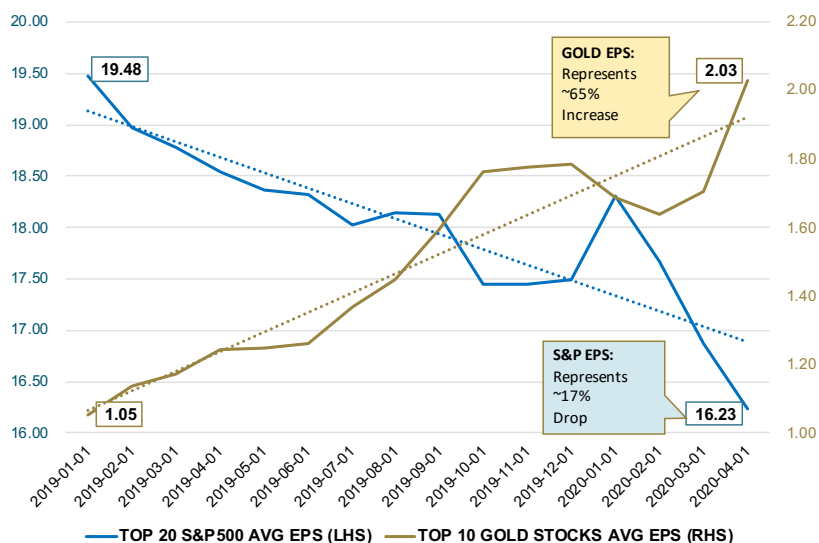
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REASON #5. Earnings Momentum has Turned Positive

Although COVID-19 related lockdowns and supply chain disruptions are impacting gold producers, miners are benefiting from lower energy costs (as the global recession pushes oil costs lower) and U.S. dollar strength, both of which reduce the cost of production.

Despite the pandemic, there are ample signs the wind is shifting for the gold mining sector, and that earnings per share growth is accelerating, at a time when it is declining for the broader equity market. In Figure 6, we show 1-year forward earnings per share (EPS) revisions for the top-10 gold mining companies versus the average for the top 20 S&P 500 companies. EPS estimates are up ~65% for gold miners and down ~17% for the S&P 500.

Figure 6. Rising Gold Miners EPS Trend vs. Declining S&P 500 Trend



Source: Bloomberg as of 4/30/2020.

REASON #6. Gold Stocks Play a Different Role than Bullion

It is 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 positively correlated, as asset classes they could not be more different.

Physical gold, whether it is in the form of coin, bar or a trust (for example, Sprott Physical Gold Trust, NYSE Arca: PHYS), should be viewed as a long-term store of value. Gold is counter-cyclical and has proven over centuries to be a safe haven asset that protects your purchasing power.

As such, we recommend that investors allocate between 5-10% of their assets to physical gold and other 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 and the price of gold is moving higher, as they are now, gold stocks may have the potential to outperform.

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Sprott's Investment Thesis for Gold and Gold Equities

In summary, here is what is underpinning our belief in the rally for gold and gold stocks:

Support Remains in Place for the Gold Bull Market to Continue

- Uncertainty over the global recession stemming from the COVID-19 pandemic continues to support growing investor interest in gold as a safe haven asset
- The global response to the COVID-19 pandemic has been unprecedented monetary and fiscal stimulus, which will massively increase debt levels
- Lower global interest rates continue with the U.S. now at 0%
- Central banks continue to amass record quantities of gold as a reserve asset
- Gold is uncorrelated to traditional equity investment and is, in our opinion, under-owned by most investors

The Case for Gold Equities

- Gold mining stocks have outperformed the metal by 2-3x during past bull phases for the metal
- Near-term mine suspensions and government mandates to reduce activity due to COVID-19 has put pressure on ore supply, adding further support to the long-term gold price
- March market dislocations and COVID-19 impact forces managements to re-focus on strategic vision
- Miners with strong balance sheets and quality reserves are best positioned to enjoy higher profit margins over the long term
- The M&A cycle continues with the involvement of more small- and mid-cap companies, as they recognize the need for scale and to remain relevant

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 modified market capitalization weighted index comprised of publicly traded companies primarily involved in the mining of gold and silver in locations around the world.

² 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. You cannot invest directly in an Index.

³ Based on the performance of the spot price of gold, which refers to the price of one ounce of gold at which the commodity could be transacted and delivered.

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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.

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Sprott Gold Miners Exchange Traded Fund

Performance: Average Annual Total Returns* (%)

MONTH END AS OF 4/30/2020	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	S.I.²
Sprott Gold Miners ETF (Net Asset Value)	42.82	14.29	13.84	58.67	13.57	9.92	2.86
Sprott Gold Miners ETF (Market Price) ¹	43.34	14.35	13.58	59.00	13.73	9.96	2.90
Solactive Gold Miners Custom Factors Index TR (Benchmark) ³	42.39	14.97	14.60	-	-	-	-
Sprott Zacks Gold Miners Index (Legacy Index) ³	45.56	12.65	8.82	65.31	15.68	11.46	4.21
S&P 500 [®] Total Return Index	12.82	-9.26	-9.29	0.86	9.04	9.12	9.12
QUARTER END AS OF 3/31/2020	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	S.I.²
Sprott Gold Miners ETF (Net Asset Value)	-12.78	-20.30	-20.30	5.76	0.35	4.11	-3.32
Sprott Gold Miners ETF (Market Price) ¹	-12.19	-20.76	-20.76	5.54	0.24	4.12	-3.35
Solactive Gold Miners Custom Factors Index TR (Benchmark) ³	-12.67	-19.51	-19.51	-	-	-	-
Sprott Zacks Gold Miners Index (Legacy Index) ³	-13.91	-25.24	-25.24	8.18	1.58	5.19	-2.36
S&P 500 [®] Total Return Index	-12.35	-19.60	-19.60	-6.98	5.10	6.73	6.97

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: Average Annual Total Returns* (%)

MONTH END AS OF 4/30/2020	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	S.I.⁵
Sprott Junior Gold Miners ETF (Net Asset Value)	34.78	-6.81	-9.13	21.10	-1.31	3.67	5.54
Sprott Junior Gold Miners ETF (Market Price) ¹	36.66	-8.05	-10.67	19.56	-1.57	3.46	5.28
Solactive Junior Gold Miners Custom Factors Index TR (Benchmark) ⁶	35.16	-6.32	-8.64	-	-	-	-
Sprott Zacks Junior Gold Miners Index – TR (Legacy Index) ⁶	43.15	-2.18	-7.83	39.71	3.95	7.40	9.26
S&P 500 [®] Total Return Index	12.82	-9.26	-9.29	0.86	9.04	9.12	8.98
QUARTER END AS OF 3/31/2020	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	S.I.⁵
Sprott Junior Gold Miners ETF (Net Asset Value)	-19.24	-32.58	-32.58	-16.70	-12.69	-0.28	-0.48
Sprott Junior Gold Miners ETF (Market Price) ¹	-19.28	-34.64	-34.64	-18.97	-13.46	-0.77	-1.01
Solactive Junior Gold Miners Custom Factors Index TR (Benchmark) ⁶	-19.17	-32.41	-32.41	-	-	-	-
Sprott Zacks Junior Gold Miners Index – TR (Legacy Index) ⁶	-21.35	-35.61	-35.61	-9.53	-9.84	2.05	1.85
S&P 500 [®] Total Return Index	-12.35	-19.60	-19.60	-6.98	5.10	6.73	6.54

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.

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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.

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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 Distributors, Inc. is the Distributor for the Sprott Gold Miners ETF and the Sprott Junior Gold Miners ETF.

ALPS Distributors, Inc. is not affiliated with Sprott Asset Management LP.