Sprott

Special Report

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Gold Does its Job in a Tough Environment

Gold continued to deliver strong relative performance and was up 3.95% on a year-to-date basis through March 31, 2020. This compares to a -19.60% first-quarter return for the S&P 500 Total Return Index.[1]

Asset	QTD	YTD	1 YR	3 YR*	5 YR*
Gold Bullion	3.95%	3.95%	22.04%	8.08%	5.91%
S&P 500 TR Index	-19.60%	-19.60%	-6.98%	5.10%	6.73%

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 866.675.2639 for current month end performance. For standardized performance of the fund please see page 5.

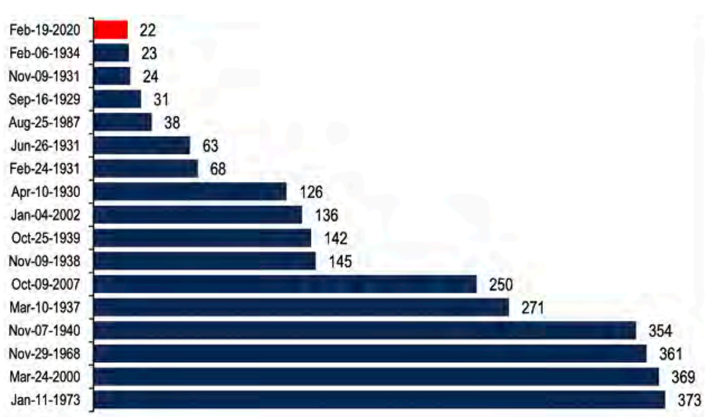
*Average annual total returns. Bloomberg. Data as of March 31, 2020.

Gold and precious metal equities have been collateral damage during this most recent market correction. The broader markets had become a tinder box with grossly elevated valuation metrics never seen before, coupled with an economy burdened by record amounts of leverage (government, corporate, personal) and widespread investor complacency. All that was required was a spark — enter COVID-19. The speed of the correction was historical. The February to March 30% drawdown was the fastest 30% drawdown of all time (Figure 1).

For us at Sprott, the corresponding selloff in gold bullion and precious metal equities was not surprising. During violent broader market corrections, liquidity is priority number one. This time was no different as broader markets gapped down in response to the greatest demand shock in modern economic history. This resulted in many entities selling gold bullion to meet liquidity requirements that surfaced because of margin calls, and the shuttering of both credit and debt markets. This pattern is similar to what the market witnessed as the Global Financial Crisis (GFC) unfolded in 2008-2009.

Figure 1. Feb.-Mar. 2020 Selloff was the Fastest 30% Drawdown in History

Measured by Number of Days



Source: BofA Global Research, Bloomberg.

Gold Serves its Function as Portfolio Insurance

Before hypothesizing where we will go from here, it is important to highlight that gold bullion has served its function as portfolio insurance. Year to date through March 31, 2020, gold bullion has appreciated 3.95%, while the S&P 500 Index[1] has declined -19.60%. At the same time, gold mining equities have not fared as well gold bullion, because during the early stages of a correction, gold stocks are first and foremost stocks; GDX[2] was down 21.31% YTD.

The GFC as Playbook

As we are seeing today, there was a material demand shock as the GFC unfolded, with demand across economies declining suddenly and sharply. Although not a perfect analog, the GFC can serve as a playbook. As liquidity became paramount for many market sectors during the GFC, gold bullion was sold to meet liquidity requirements. From the beginning of 2008 to November 12, 2008 (gold bullion's low price), the S&P 500 fell 41.11%, gold equities (GDX[2]) cratered 60.60% and gold bullion depreciated by a relatively modest 16.94%. Once the U.S. Federal Reserve ("Fed") stabilized liquidity conditions, gold bullion and precious metals stocks generated superior absolute and relative returns. From November 12, 2008 to the end of 2009, gold bullion rallied 54.02% and GDX rebounded 138.20%. The S&P 500 declined another 20.62% from November 12, 2008, to its bottom in March 2009 and then appreciated 64.83% to year-end 2009.

Fed Announces Unlimited QE on March 23

This time around, the Fed and the U.S. federal government are pulling no punches. Initially the Fed said it would undertake various operations to provide market liquidity that could total $1.5 trillion. This would include purchases of treasuries across all maturities and repo market operations. President Trump then announced interest on student loans would be waived in addition to a moderate $50 billion emergency aid package. The Fed then announced another $700 billion quantitative easing program which would include purchases of municipal bonds.

This past week, the biggest bazooka of all time was pulled out of the Fed's arsenal as it amended its previously announced QE program by removing limits on its asset purchases and adding corporate bonds to its list of eligible securities it can purchase. Finally, the U.S. announced a $2.3 trillion fiscal package. The package equates to 10.6% of US GDP. The total budget deficit is expected to widen to at least 11.5% of GDP, which are levels not seen since WWII. The package includes grants (hundreds of billions) and direct payments to taxpayers ($290 billion), both of which are forms of helicopter money.[3]

"All these actions should debase fiat currencies while providing a tremendous tailwind for gold bullion and gold mining equities."

This is very good news for gold bullion and gold equities. There is an 80% correlation between the Fed's balance sheet and the price of gold bullion. Similar to what occurred during the GFC, gold bullion should move first followed by gold equities (see Figure 2).

A Tailwind for Gold and Gold Stocks

This response has not been limited to the U.S. Globally, we are seeing central banks and governments deploying unprecedented amounts of monetary and fiscal stimulus in response to the economic fallout caused by COVID-19. All these actions should debase fiat currencies while providing a tremendous tailwind for gold bullion and gold equities.

We believe *the table is set* for a move in gold bullion and gold equities that could dwarf the second half of 2008.

Figure 2. Fed Balance Sheet vs. Price of Gold Bullion and Gold Equities

Source: Bloomberg. Data as of 3/27/2020. The red line represents reserve credit outstanding in $ trillions ($5.125 trillion as of 3/27/2020). The yellow line is the gold spot price based on GOLDS Comdty Index. The blue line is the price of gold mining equities represented by GDX.[2]

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[1] The S&P 500 Index is a market-value weighted index consisting of 500 stocks chosen for market size, liquidity, and industry group representation. You cannot invest directly in an index.

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

[3] Helicopter money refers to giving money directly to individuals rather than central banks buying up bond issuances.

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: Average Annual Total Returns* (%)

MONTH 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

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 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	-16.7	-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	-19.6	-19.6	-6.98	5.1	6.73	6.54

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	-16.7	-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	-19.6	-19.6	-6.98	5.1	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.

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.

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