# What's the Best Way to Own Precious Metals?

Sprott

Precious metals have been a store of wealth for millennia. Owning coins, bars or jewelry used to be the only option to invest in gold, silver, platinum or palladium, but today's investors have a number of alternatives. In addition to bars and coins, they can also hold metals-backed exchange-traded funds (ETFs), closed-end funds, precious metals certificates and digital precious metals.

Now, investors also have the ability to invest in precious metals according to environmental, social and governance (ESG) standards and values, as companies bring these principles to the forefront and strive towards a greener future.

## Bars and Coins

Bars and coins are the most direct way to hold precious metals. Government minted bars and coins like the American Gold Eagle or Canadian Maple Leaf have an assurance of purity and can be purchased through authorized dealers. However, when holding bullion directly, investors are responsible for its storage, insurance and ongoing costs. Bullion dealers charge a mark-up to your purchase price of coins and bars and buy them back at a discount. Bars and coins may not be easily traded, exchanged or redeemed.

For U.S. investors, the IRS considers precious metals to be collectibles in the class of art, rare books and fine wine. Provided you hold it for more than one year, for tax purposes, the long-term capital gains tax on your net gain from selling a collectible is 28%. This level of tax is considerably higher than the tax rate on most net capital gains, which is an average of 15% for most taxpayers, according to the IRS[1]. If you sell a collectible in less than one year, the proceeds will be taxed as ordinary income.

| Pros | Cons |
|---|---|
| • Direct ownership of bullion<br>• Able to purchase in small dollar amounts | • Mark-ups to spot prices when buying; mark-downs when selling<br>• Inconvenient to buy and sell<br>• Responsible for storage, insurance and ongoing related costs<br>• In the U.S., taxed as a collectible at 28% if held more than 1 year |

[1] Source: How Collectibles Are Taxed? | https://www.investopedia.com/articles/personal-finance/061715/how-are-collectibles-taxed.asp


## Precious Metals Backed Exchange-Traded Portfolios

Precious metals exchange-traded portfolios are a popular way to gain exposure to precious metals without the inconvenience of storing and insuring the physical bullion. Exchange-Traded Funds (ETFs) and Closed-End Funds provide investors with access to physical bullion with the daily liquidity of an exchange-traded security.

## Exchange-Traded Bullion Funds

Exchange-traded bullion funds are open-ended funds that issue shares backed by metals. Investors do not have direct beneficial ownership of the bullion and do not have the option to exchange their shares for physical metal. While bullion ETFs mostly hold allocated metals, they also hold unallocated metals to facilitate the creation and redemption of shares. In the U.S., for tax purposes, bullion ETFs are considered collectibles by the IRS. ETFs holding precious metals are subject to the same tax treatment as ownership of precious metals coins or bars.

Sprott ESG Gold ETF (SESG) is the world's first ETF to exclusively source and refine gold from recognized ESG mining leaders.[2] This ETF differs from the usual ETF in that as Sprott ESG Approved Gold is created the Fund will become fully allocated and the gold will be stored outside of the financial system.

| | Pros | Cons |
|---|---|---|
| **ETFs** | • Liquid<br>• Convenient – easy to buy and sell<br>• Cost effective<br>• Typically trades at net asset value<br>• Able to purchase in small dollar amounts | • Cannot be redeemed for bullion<br>• Can hold futures contracts, certificates and unallocated metals<br>• Counterparty risk – bullion bank<br>• In the U.S., taxed as a collectible at 28% if held more than 1 year |
| **Sprott ESG Gold ETF**<br>(offers trust, transparency & traceability) | • All gold is sourced exclusively from Sprott ESG Approved Miners & Mines in Canada<br>• Gold bars fabricated in segregated production runs and do not include recycled gold<br>• Gold will be held at the Royal Canadian Mint—outside of the financial system and is a Canadian Crown Corporation of the Government of Canada | • Cannot be redeemed for bullion<br>• No cash redemption option<br>• Will hold unallocated gold until fully allocated with Sprott ESG Approved Gold<br>• In the U.S., taxed as a collectible at 28% if held more than 1 year |

2 Based on Morningstar's universe of listed commodity funds. Data as of 6/30/2022.


## Closed-End Bullion Funds

Closed-end bullion funds are similar to ETFs, but issue units through initial public offerings and follow-on offerings, units can be canceled through buybacks. The units are usually fully backed by allocated bullion. Since there are a fixed number of units at any given time, they may trade at a premium or a discount to their net asset value, depending on investor demand and whether there is an option to redeem for physical metal.

For some closed-end funds, such as the Sprott Physical Bullion Trusts, special U.S. federal income tax rules apply because they are defined as Passive Foreign Investment Corporations (PFICs) by the IRS. If a U.S. non-corporate holder makes a timely QEF election each year by filing IRS form 8621 with their federal income tax return, it will generally mitigate the otherwise adverse U.S. federal income tax consequences of owning precious metals via coins, bullion or ETFs. Capital gains will be taxed between 15% and 20%, depending on the holder's specific personal situation.

| | Pros | Cons |
|---|---|---|
| **Closed-End Funds** (without a physical redemption feature) | • Liquid<br>• Convenient – easy to buy and sell<br>• Cost effective<br>• Potential tax advantage for non-corporate U.S. investors if held more than 1 year – 15% or 20% long-term capital gains tax rate<br>• Able to purchase in small dollar amounts | • Can trade at a significant discount/ premium to net asset value<br>• Counterparty risk – bullion bank<br>• May hold unallocated precious metals certificates |
| **Sprott Physical Bullion Trusts** (offers physical redemption) | • Liquid<br>• Convenient – easy to buy and sell<br>• Cost effective<br>• Fully allocated metal only<br>• Redeemable for physical metals*<br>• Lower counterparty risk – storage with Crown Corporation of the Government of Canada<br>• Potential tax advantage for non-corporate U.S. investors if held more than 1 year – 15% or 20% long-term capital gains tax rate**<br>• Able to purchase in small dollar amounts | • Can trade at a discount/premium to net asset value but the discount is typically reduced due to physical metal redemption feature |

* Subject to certain minimums.

** For more information, please see "Tax Considerations-U.S. Federal Income Tax Considerations" in the Prospectus and always consult your tax accountant regarding your particular situation.

## Precious Metals Certificates

Precious metals certificates are another way to gain exposure to gold or silver, but without the inconvenience of storing and insuring physical bullion. They are certificates of ownership of the precious metal and can be allocated (fully reserved) but in most cases are unallocated (pooled). Allocated certificates usually correspond to specific numbered bars, while unallocated certificates do not correspond to specific bars and do not provide direct beneficial ownership or title.

Precious metals certificates are essentially promissory notes – the issuer, a bullion bank, is promising to exchange them for bullion if requested, but investors do not own the bullion. There is no guarantee that there is a sufficient amount of bullion to back all of the certificates issued.

Bullion banks charge a premium over the spot price and certificates usually require larger minimum amounts such as 10oz of gold or 500oz of silver. Counterparty risk is a key consideration when investing in precious metals certificates. If the issuer of the certificate were to go bankrupt, you may become an unsecured creditor and you may not recover 100% of your investment.

In the U.S., for tax purposes precious metals certificates are considered collectibles by the IRS. The long-term capital gains tax on your net gain from selling a collectible is 28%.

| Pros | Cons |
| --- | --- |
| • No responsibility to arrange for storage and insurance<br>• Lower mark-ups to acquire | • Do not always guarantee exchange for bullion<br>• Counterparty risk of issuer<br>• No direct ownership<br>• Not able to purchase in small dollar amounts<br>• In the U.S., taxed as collectibles at 28% if held more than 1 year |

## Digital Precious Metals

Several online marketplaces now allow investors to securely buy, sell and redeem digital assets backed by gold and other precious metals. These digital offerings usually strive to combine the key benefits of owning physical precious metals and the ease of blockchain-based technology. Investors should fully investigate whether the digital asset they are considering is 100% backed by the physical metal. While owning physical metals directly can be seen as cumbersome and risky, the digital option is often portrayed as a convenient, economical solution.

Investors have a number of options for gaining exposure to precious metals – bars and coins, ETFs, closed-end funds, precious metals certificates and digital precious metals.

Bars and coins provide direct bullion ownership, but can be costly and inconvenient to buy and sell. Certificates are more convenient to hold but do not guarantee exchange for bullion and carry counterparty risk. ETFs are liquid and cost effective but do not offer beneficial bullion ownership and cannot be redeemed for metal.

We believe that closed-end funds with physical redemption features, such as the Sprott Physical Bullion Trusts offer a great way to gain exposure to precious metals. They have the liquidity, convenience and cost efficiency of exchange-traded funds along with a number of compelling advantages which include the ability to redeem for physical metal[3], the potential for more favorable tax treatment for U.S. investors[4] and lower counterparty risk by not storing the metals with a non-corporate U.S. bullion bank.

For investors interested in adding an ESG (environmental, social and governance) component to their gold investments, Sprott ESG Gold ETF (SESG) offers this feature and is the world's first ETF to exclusively source and refine gold from recognized ESG mining leaders.[5]

[3] Subject to certain minimums.

[4] For more information, please see "Tax Considerations-U.S. Federal Income Tax Considerations" in the Prospectus and always consult your tax accountant regarding your particular situation.

[5] Based on Morningstar's universe of listed commodity funds. Data as of 6/30/2022.

# Ways to Invest in Precious Metals

Investors have a number of options for gaining exposure to gold, silver and other precious metals – bars and coins, ETFs, closed-end funds, precious metals certificates and digital precious metals. Sprott offers several physical bullion investment options. The Sprott Physical Bullion Trusts provide liquidity, convenience and cost efficiency of exchange-traded funds along with a number of compelling advantages which include the ability to redeem for physical metal[1], the potential for more favorable tax treatment for U.S. investors[2] and lower counterparty risk by not storing the metals with a non-corporate U.S. bullion bank. In addition, Sprott ESG Gold ETF (SESG) is the world's first ETF to exclusively source and refine gold from recognized ESG mining leaders.[3]

## Sprott Physical Bullion Funds

| PHYS | PSLV | CEF | SPPP | SESG |
|---|---|---|---|---|
| Sprott Physical Gold Trust | Sprott Physical Silver Trust | Sprott Physical Gold and Silver Trust | Sprott Physical Platinum and Palladium Trust | Sprott ESG Gold ETF |

Fully Allocated Precious Metals
Redeemable for Metals[1]
Trustworthy Storage

Potential Tax Advantages[2]
Easy to Buy, Sell & Own
A Liquid Investment

*Listed on NYSE Arca[4] and TSX*

Trust
Transparency
Traceability

*Listed on NYSE Arca*

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**The Sprott Physical Bullion Trusts are generally exposed to multiple risks that have been both identified and described in the Prospectus. Please refer to the Prospectus for a description of these risks. This material must be preceded or accompanied by a prospectus. For an additional copy of the prospectus please visit https://sprott.com/investment-strategies/physical-bullion-trusts/.**

Precious metals investments are more volatile on a daily basis and have higher headline risk than other sectors as they tend to be more sensitive to economic data, political and regulatory events as well as underlying commodity prices. Precious metals investments have price fluctuations based on short-term dynamics partly driven by demand/supply and also by investment flows. Precious metals investments tend to react more sensitively to global events and economic data than other sectors.

**This material must be preceded or accompanied by a prospectus. For an additional copy of the Sprott ESG Gold ETF Prospectus, please visit https://sprott.com/sesg/prospectus/. An investor should consider the investment objectives, risks, charges and expenses carefully before investing. To obtain a Sprott ESG Gold ETF Statutory Prospectus, which contains this and other information, visit https://sprott.com/sesg/prospectus/, or contact your financial professional or call 888.622.1813. Read the Prospectus carefully before investing.**

There is currently no internationally accepted standard determining under what circumstances gold can be determined to be ESG. The Fund is not suitable for all investors. There are risks involved with investing in ETFs including the loss of money. There is currently no internationally accepted standard determining under what circumstances gold can be deemed to be ESG. The term "Sprott ESG Approved Gold" refers to gold that is physically indistinguishable from other gold but that has been sourced and produced in a manner consistent with the ESG standards and criteria used by the Sponsor (the "ESG Criteria"), which are designed to provide investors with an enhanced level of ESG scrutiny along with disclosure of the provenance of the metal sourced and include an evaluation mining companies and mines. Mining companies and mines that meet the ESG Criteria ("Sprott ESG Approved Mining Companies" and "Sprott ESG Approved Mines," respectively) must also comply with the Mint Responsible Sourcing Requirements.

The Fund's investments will be concentrated in the gold industry. As a result, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the gold industry. The price of gold may be affected by changes in inflation rates, interest rates, monetary policy, economic conditions, and political stability. The price of gold may fluctuate substantially over short periods of time; therefore, the Fund's share price may be more volatile than other types of investments. In addition, they may also be significantly affected by political and economic conditions in gold producing and consuming countries, and gold production levels and costs of production.

Shares are not individually redeemable. Investors buy and sell shares of the Sprott ESG Gold ETF on a secondary market. Only market makers or "authorized participants" may trade directly with the Fund, typically in blocks of 50,000 shares. Past performance is not an indication of future results.

Sprott Asset Management USA, Inc. is the Investment Adviser of Sprott ESG Gold ETF; Sprott Global Resource Investments Ltd. is the Distributor and is a registered broker-dealer and FINRA Member.

[1] Subject to certain minimums.
[2] For more information, please see "Tax Considerations-U.S. Federal Income Tax Considerations" in the Prospectus and always consult your tax accountant regarding your particular situation.
[3] Based on Morningstar's universe of listed commodity funds. Data as of 6/30/2022.
[4] The Trusts are closed-end funds established under the laws of the Province of Ontario in Canada and are available to U.S. investors by way of listings on the NYSE Arca pursuant to the U.S. Securities Exchange Act of 1934. The Trusts are not registered as investment companies under the U.S. Investment Company Act of 1940.

Sprott Asset Management LP does not offer tax advice.

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