

Gold Miners Split Corp.

GLC will invest in gold mining issuers listed in Canada, the United States, Australia, or Europe based on factors such as market capitalization, fundamental valuation metrics, liquidity, price volatility, dividend yield, option market conditions, and relevant news.

As at June 30, 2020



TICKER: GLC (Preferred Shares); GLC.PR.A (Class A Shares)

MACROECONOMIC HIGHLIGHTS:

Gold miners glittered in the first half as bullion prices neared highs not seen since 2012, with prices expected to climb higher. This trend benefitted companies held by the fund such as Teranga Gold Corp., Barrick Gold Corp., Wheaton Precious Metals Corp., among several others.

Although bullion prices fell in the first quarter on the back of the closure of mines due to the COVID-19 pandemic and a dramatic sell-off in the stock market, they recovered in the second quarter with the easing of lock down conditions and uncertainty created by a sharp spike in coronavirus cases, which led to flight to safety.

During the first half, gold outperformed all other major asset classes. In response to the pandemic, central banks around the world aggressively cut rates and/or expanded asset purchasing programmes to stabilise and stimulate their economies. In addition, widespread fiscal stimuli and ballooning government debt levels raised concerns about a long-term run up of inflation, or significant erosion of the value of fiat currencies.

As these dynamics heighten risk and lead to the possibility of ever lower returns than expected, it is expected that gold will play an increasingly relevant role in investors' portfolios. In fact, investors have embraced gold in 2020 as a key portfolio hedging strategy. Current conditions are also expected to continue to reinforce the role of gold as a strategic asset.

At the same time, big producers have also started to crank up returns to shareholders. The total per-share dividend of the five biggest gold miners has risen from US\$1.50 in 2015 to US\$3.20 in 2019, according to UK-based asset manager Ninety One.

In a recent report, Goldman Sachs said it expects gold prices to follow a similar path to that in the aftermath of the financial crisis of 2008-09 — jumping initially as rates fall, directionless for about six months after, then rising with higher inflation and remaining high for several years before falling. It also predicts gold prices will reach US\$2,000 per ounce by June next year as demand rises with the lifting of pandemic lockdowns and a weaker American dollar.¹

With bullion forecasted to climb higher, merger and acquisition activity has been up, mainly



among mid-sized and junior companies. Companies are expected to create more joint ventures to share risk and provide synergistic cost savings, a trend illustrated by the Nevada gold mine partnership struck by giants owned by the ETF, Barrick Gold Corp. and Newmont Corp. last year, according to veteran geologist Roger Moore.ⁱⁱ

In the M&A front, London-based Endeavour Mining Corp. announced a \$1-billion all-stock deal to purchase Montreal-based Semafo Inc., a holding in the fund, which would create a company with six gold mines in West Africa. Both companies are currently listed on the TSX, and together would produce around one million ounces of gold per year with a market capitalization of around US\$2.1 billion.ⁱⁱⁱ

In addition, Chinese miners acquired two small Canadian gold producers. Zijin Mining Group Co. Ltd. agreed to buy Guyana Goldfields Inc. for cash in the second quarter, while Shandong Gold Mining Co. Ltd. bought TMAC Resources Inc., also for cash. In December, Zijin had also bought another Canadian miner, Continental Gold Inc., for cash.^{iv}

Throughout the period, the manager periodically used a covered call strategy to add value to the portfolio. Although the manager has the option of writing covered calls on up to 33% of the portfolio, volatile market conditions did not permit the continuous application of the strategy.

PERFORMANCE ATTRIBUTION:

At the end of June, the largest holding in the fund by weight was Newmont Corp., followed by Wheaton Precious Metals Corp., which also made the largest contributions to the fund's return over the six-month period. The best performing stock in the fund was Semafo Inc., followed by Terranga Gold Corp.





SOURCES:

ⁱ <https://www.princegeorgecitizen.com/record-gold-price-forecasts-boost-prospects-for-junior-mining-companies-1.24161443>

ⁱⁱ <https://www.princegeorgecitizen.com/record-gold-price-forecasts-boost-prospects-for-junior-mining-companies-1.24161443>

ⁱⁱⁱ <https://financialpost.com/commodities/mining/gold-miners-strike-1-billion-merger-in-age-of-coronavirus-as-uncertainty-boosts-prospects>

^{iv} <https://www.bnnbloomberg.ca/china-scooping-up-canadian-miners-after-gold-rally-heats-up-m-a-1.1449584>

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