

Evolve Global Materials & Mining Enhanced Yield Index ETF

BASE invests directly or indirectly in equity securities of global issuers engaged in the manufacturing, mining and/or integration of metals and materials, with added value of a covered call strategy on up to 33% of the portfolio.

As at December 31, 2020



TICKER: BASE (Hedged); BASE.B (Unhedged)

MACROECONOMIC HIGHLIGHTS:

Following a sharp curtailment of mining activity early in the year due to the coronavirus pandemic, the global materials and mining sector commenced showing signs of renewed life as lockdown conditions eased towards the end of the second quarter.

Early in the first quarter, concerns over the spread of the coronavirus triggered a sharp sell-off in the stock market, leading to a decline in the price of gold, negating the safe haven status typically attributed to the yellow metal. Although this was partially due to investors selling gold to cover losses made in other segments of the market, the price of gold, silver and other base metals fell on the back of reduced demand, particularly from China, which at the onset of the pandemic was the most affected country. China is one of the world's largest buyers of gold and base metals.

However, in June gold regained strength and crossed the \$1800-mark for the first time since 2011, fuelled in part by concerns over a sharp spike in coronavirus cases in some US states and by substantial central bank stimulus which boosted the non-interest-bearing metal. Vast amounts of global stimulus to shield economies from the ravages of the pandemic have pushed real yields below zero and consequently made bullion more attractive. After ups and downs throughout the last half of the year in the face of continued stimulus and a growing second wave of COVID-19 cases around the world, the yellow metal finished the year just shy of \$1900 USD.

Concurrently, copper climbed higher in the second quarter on nascent signs of a recovery in Chinese demand, while the dramatic spread of the coronavirus in top mining regions in South America, particularly Brazil, fuelled fears of a major disruption to supply.

Shares of copper and gold miner Freeport-McMoRan, held by the Fund, increased 98% in 2020 on near and long-term growth prospects for copper. Having started 2020 at around \$2.50 per pound, copper fell to \$2.10 in March as the pandemic took hold. But a recovery beginning mid-year, plus growing investment during 2020 in renewable energy and electric vehicle technology pushed expectations of increased long-term demand for copper. These expectations buoyed the value of copper, seeing it end the year up, at around \$3.50 per pound.

In April, gold and platinum group metals producer Sibanye-Stillwater, one of the Fund's largest



holdings, received approval to commence limited mining operations in South Africa, subject to the implementation of agreed protocols to address COVID-19 related health and safety risks.

Earlier in March, the company, the world's largest primary producer of platinum and rhodium, cautioned that the suspension of its operations would adversely impact production at the SA mines and advised shareholders that its production for 2020 may differ from previous guidance. By the end of 2020, Sibanye-Stillwater was able to report that second-half production was up across all operating segments relative to production in the first half of 2020.

The rising price of gold resulted in AngloGold Ashanti more than tripling its first quarter cash flow from operating activities and enabling it to boost its available liquidity to more than \$2 billion USD. The company, one of the Fund's largest holdings, reported that its diverse portfolio of 14 mines in nine countries helped to limit the impact of Covid-19-related stoppages in the first quarter.

In December, AngloGold Ashanti, together with their joint venture partner IAMGOLD, completed the previously announced sale of their collective interests in Sadiola gold mine in Western Mali. Each partner received \$25 million USD from the sale and remain entitled to the various deferred considerations. "We are pleased to complete this transaction, which underpins our commitment and focus on a prudent capital allocation strategy as we embark on a transformational path with the execution on our growth pipeline," said President and CEO Gordon Stothart.

Also in December, Newmont Corp, one of the largest holdings in the Fund by weight, announced a share buyback over 18 months that is worth up to \$1 billion USD. They also announced that they expect a steady yearly gold production between 7 M GEOs and 8 M GEOs, peaking in 2030.

Throughout the period, the manager periodically used a covered call strategy to add value to the portfolio, with the option of writing covered calls on up to 33% of the portfolio.

PERFORMANCE ATTRIBUTION:

The top-performing holdings in the fund for 2020 were Freeport-McMoran, Inc., Cia Siderurgica Nacl, and Gold Fields, Ltd. The Fund's largest exposure by weight was to Gold Fields Ltd., followed by Newmont Corp, and Freeport-McMoran, Inc.

**SOURCES:**

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