NEO GLC

ANNUAL COMMENTARY

Evolve Gold Miners Fund

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 December 31, 2020

TICKER: GLC

MACROECONOMIC HIGHLIGHTS:

Gold glittered in the first half of 2020 as bullion prices neared highs not seen since 2011.

Early in the first quarter, concerns over the spread of the coronavirus triggered a sharp sell-off in the stock market and the closure of mines due to the COVID-19 pandemic. This led 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 fell on the back of reduced demand, particularly from China, which is one of the world's largest buyers of gold.

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. Ballooning government debt levels raised concerns about a long-term run up of inflation, or significant erosion of the value of fiat currencies. As a result, this move toward the safety of gold benefitted companies held by the Fund such as Teranga Gold Corp., Barrick Gold Corp., Wheaton Precious Metals Corp., amongst others.

During the first half of the year, 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 programs to stabilize and stimulate their economies. As these dynamics heightened 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 of 2021 as demand rises with the lifting of pandemic lockdowns and a weaker American dollar.

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.

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.

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 2019, Zijin had also bought another Canadian miner, Continental Gold Inc., for cash.

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 US$1900.

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:

For 2020, the largest holding in the Fund by weight was Newmont Corp., followed by Barrick Gold Corp., and Agnico Eagle Mines Ltd. The best performing stock in the Fund was Terranga Gold Corp, followed by Newmont Corp., and Wheaton Precious Metals Corp.

SOURCES:

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