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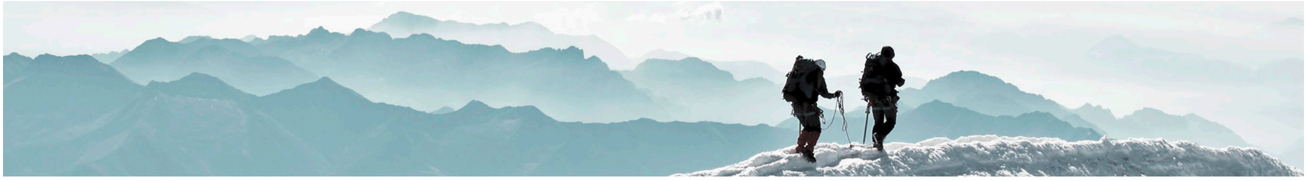


Gold rallies on historic stimulus packages, but how will miners cope with the impact of COVID-19?

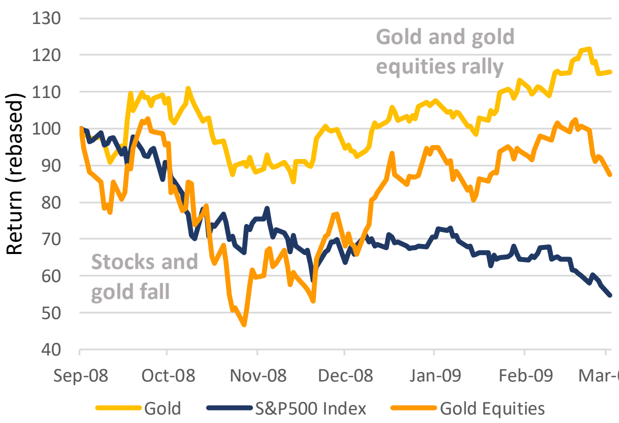
An update on the impact of COVID-19 on the gold sector

25 March 2020

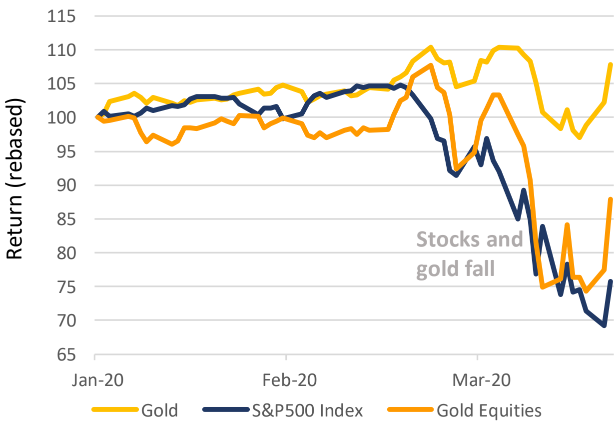
It is undoubtedly a volatile time for global financial markets and even the gold sector has been caught up in the turmoil, with gold and gold equities having faced a sell-off caused by liquidity driven selling in recent weeks. Yet, with aggressive stimulus packages being implemented and interest rates at historic lows, there are now strong signals that the fundamentals for the gold sector are very positive in the medium to long term. History may not repeat itself, but it can offer a guide. While the recovery for gold equities may prove uneven, as certain producers face challenges brought on by the spread of COVID-19, opportunities exist for active investors with a focus on quality and value.

The recent turmoil in financial markets has impacted all sectors, including the gold sector, as the spread of the COVID-19 pandemic caused liquidity driven selling. With governments ramping up measures to combat the virus around the world, the worst is not yet over. Drastic policy measures such as restricting travel and closing businesses, amid rhetoric from leaders evoking wartime governments and natural disasters, will have a deep and lasting economic impact. As clarity grows over the social and economic impact of the crisis, it is also clear that a macroeconomic shift is underway globally. Policymakers have moved swiftly to announce vast stimulus plans, with the US Federal Reserve signalling a significant expansion of quantitative easing, pledging an open-ended asset purchase program, which will for the first time include corporate bonds, in an unprecedented move this week. Public and political support for a surge in public spending appears to be strong, particularly given the potential dire effects on employment which are likely to result from an economic shutdown. Interest rates, which were already near historic lows in many countries, have been slashed by central banks in an attempt to limit the economic damage and halt the market rout.

2008: Gold and gold equities rallied



2020: Is it 2008 all over again?



Source: Bloomberg. Data at 25 March 2020.

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The promise of a surge in public spending, open-ended stimulus, low and negative real interest rates, and other inflationary policy initiatives are highly supportive of a gold sector recovery, based on historic market crashes and recovery cycles. While the market crash of 2020 is nothing like the crash which sparked the Global Financial Crisis in 2008, with different drivers and market conditions, there are undoubtedly similarities in terms of the policy response and the performance of the gold sector, which is typically a safe haven relative to general equity markets.

COVID-19 presents unique challenges for gold producers

With a rising gold price and following years of corporate and operational reforms, the prospects for gold miners appear brighter than for some time. However, the outbreak and spread of COVID-19 has raised questions for producers, particularly as recent weeks have seen a number of companies announce the closure of operations.

While gold and silver mines are often located in remote areas, recent weeks have seen the impact of the virus on operations. Agnico Eagle Mines has sent home the local workforce at its Meliadine and Meadowbank mines, as well as those working on exploration projects, for four weeks. Newmont Mining is ramping-down operations at its Yanacocha mine in Peru due to COVID-19 related restrictions. Kinross Gold has faced cases of COVID-19 at one of its Russian operations and at its head office, and has taken appropriate containment action. Pan American Silver has temporarily suspended production at its four mines in Peru.

Undoubtedly the shuttering of certain mines will impact profitability and companies' operating results in the coming months, indicating that volatility will likely remain. However, due to the changes undertaken by many companies over the last several years in terms of capital discipline, deleveraging, cost control etc., many miners are in a stronger position to withstand the potential impacts. Gold miners are also likely to be supported due to low energy input prices and weaker currencies in many producer countries,

An important element of our investment strategy is that it is focused on high quality companies, which have robust balance sheets and effective management teams. We believe that these companies will be well-placed not just to weather the storm in the short-term but to thrive in a rising gold price environment, benefitting from margin expansion as the recovery gets under way.

Furthermore, one of the unique features of the gold sector it that even for those companies which do temporarily close operations, the gold in the ground will still be there when operations restart.

We believe that gold producers should always prioritise the safety of their staff, and measures to prevent or contain the spread of COVID-19 are critical for these companies to ensure they can meet their production goals in the longer-term.

As the gold sector recovers, how far can gold equities rally?

We are in a highly volatile period for gold equities, yet the outlook for gold and gold miners is more positive than for some time. The long-term monetary and fiscal policies being undertaken by governments and central banks are creating a macroeconomic environment which is highly supportive of the gold sector. Low and negative real interest rates, a surge in public spending accompanied by a rapid expansion of debt, and the implementation of inflationary stimulus policies have historically been drivers of substantial gains for the gold price and gold equities.

While miners face short-term challenges posed by COVID-19, broader market conditions are likely to become increasingly positive for this sector, which remains undervalued on a historic and relative basis. Notably, producer currency weakness appears likely to persist, bringing cost benefits to companies operating in these

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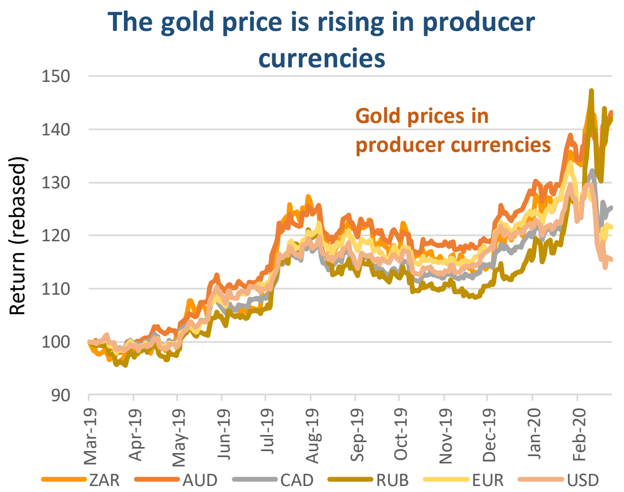
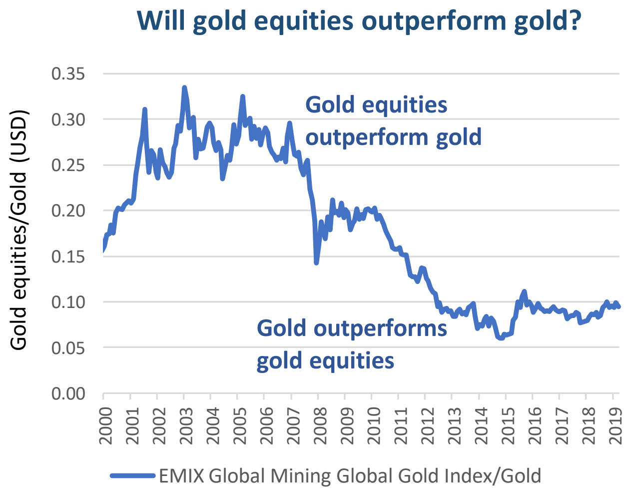
regions. A further short to medium-term benefit for producers is the low oil price, as energy is a one of the largest costs for miners.





Source: Bloomberg. Data at 24 March 2020.

As fundamental value begins to return to the gold sector, following the indiscriminate selling which has defined recent weeks, we believe a multitude of buying opportunities will emerge for investors in this historically undervalued sector. Our investment approach targets those companies which are best placed to outperform in a recovery phase, with the best quality assets, effective management teams, capital discipline and a commitment to returns to shareholders.

Sources : Bloomberg, Baker Steel Capital Managers LLP, World Gold Council

iW Partners S.A manages the Protea UCITS II - iW Precious Metal Mining Equities fund and the iW Alternative SIF - Commodities & Gold Equities fund.