

## COMMENTARY

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### Gold Investment: Let's Get Physical – Sprott Physical Gold Trust

*Sprott Asset Management Files Preliminary Prospectus in the US for a \$ 575 Million Gold Bullion Fund*

David Einhorn, the President of hedge fund Greenlight Capital, and fellow prominent hedge fund manager, John Paulson of Paulson & Co, may soon have another option for investment in the gold sector, and this time, it is physical.

Paulson has recently made news with his substantial holdings in SPDR Gold Trust (GLD), AngloGold Ashanti (AU), Gold Fields (GFI) and Kinross Gold (KGC). Einhorn is also betting on gold via the Market Vectors Gold Miners ETF (GDX) and Barrick Gold (ABX), and reportedly also owns a large amount of physical gold.

Now, a new product may be coming to both the New York Stock Exchange (NYSE) and the Toronto Stock Exchange (TSX) which will give them, and other investors, access to physical gold bullion.

On December 8<sup>th</sup>, Canadian money management firm Sprott Asset Management, which manages approximately \$4.4 billion in assets, filed a preliminary prospectus (Form F-1) with the US Securities and Exchange Commission for a US\$ 575 million initial public offering (IPO) of the Sprott Physical Gold Trust. The Sprott Physical Gold Trust would exclusively hold physical gold bullion. The trust plans to list on the NYSE under the ticker “PHYS”, and on the TSX under the ticker “PHY”. The initial public offering price is expected to be \$10.00 per unit.

Some specifics of the fund according to the prospectus include:

- The Trust was created to invest and hold substantially all of its assets in physical gold bullion.
- The Trust seeks to provide a secure, convenient and exchange-traded investment alternative for investors interested in holding physical gold bullion without the inconvenience that is typical of a direct investment in physical gold bullion.
- The Trust intends to invest primarily in long-term holdings of unencumbered, fully allocated, physical gold bullion and will not speculate with regard to short-term changes in gold prices.
- The Trust does not anticipate making regular cash distributions to unitholders.
- Sprott Asset Management LP is the sponsor of the Trust and serves as manager.

According to the prospectus, the advantages of the fund include the following:

- *Convenient Way to Own Physical Gold Bullion:* The units will trade on the NYSE and the TSX and will provide institutional and retail investors with indirect access to the physical gold bullion market while providing them with the liquidity of an exchange traded security. The units may be bought and sold on the NYSE and the TSX like any other exchange-listed securities.

- *Investment in Physical Gold Bullion Only:* Except with respect to cash held by the Trust to pay expenses and anticipated redemptions, the Trust expects to own only London Good Delivery physical gold bullion. The Manager intends to invest and hold 97% of the total net assets of the Trust in physical gold bullion in London Good Delivery bar form. The Trust will not invest in gold certificates or other financial instruments that represent gold or that may be exchanged for gold.
- *Lower Transaction Costs:* The Manager expects that, for many investors, costs associated with buying and selling the units in the secondary market and the payment of the Trust's ongoing expenses will be lower than the costs associated with buying and selling physical gold bullion and storing and insuring physical gold bullion in a traditional allocated gold bullion account.
- *Ability to Redeem Units for Physical Gold Bullion:* Unitholders will have the ability, on a monthly basis, to redeem their units for physical gold bullion for a redemption price equal to 100% of the NAV of the redeemed units, subject to certain conditions and less certain expenses related to administrative, delivery and redemption processes.
- *Storage at the Royal Canadian Mint:* The Trust's physical gold bullion will be fully allocated and stored at the Royal Canadian Mint. The Mint is a Canadian Crown corporation that operates with the full faith and credit of the Government of Canada and will be responsible for and bear the risk of loss of, and damage to, the Trust's physical gold bullion that is in the custody of the Mint. The physical gold bullion will be subject to periodic inspection and audits.
- *Potential Tax Advantage For Certain U.S. Investors:* Any gains realized on the sale of units by an investor that is an individual, trust or estate, including such investors that own units through partnerships and other pass-through entities for U.S. federal income tax purposes, may be taxable as long-term capital gains (at a maximum rate of 15% under current law, compared to a long-term capital gains tax rate of 28% applicable to the disposition of physical gold bullion and other "collectibles" held for more than one year), provided that such U.S. investor has held the units for more than one year at the time of the sale and such U.S. investor has made a timely and valid Qualified Electing Fund, to which we will refer as QEF, election with respect to the units.
- *Benefits of Investing in Gold:* Investment in gold may provide several benefits to investors. Gold may assist in protecting a portfolio from inflation, financial collapse and currency devaluation. Gold has a negative or low correlation with many other asset classes, making it an effective portfolio diversifier. In particular, given that gold prices have generally increased during times of U.S. dollar decline and during inflationary periods, gold may provide a hedge against purchasing power erosion. In addition, over the past ten years, gold has outperformed equity indices such as the S&P 500 Index, the S&P/TSX Composite Index, the MSCI EAFE Index and the S&P Global Gold Index.

Based on the structure & advantages outlined above, the Sprott Physical Gold Trust will likely appeal to institutional investors such as Jean-Marie Eveillard of First Eagle Funds, who invest in gold because it is like "insurance".

Disclosure: AI management own shares in GLD.

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