24 April 2013

Gold vs Gold Miners: Is the De-Rating of Gold Miners Finally Over?

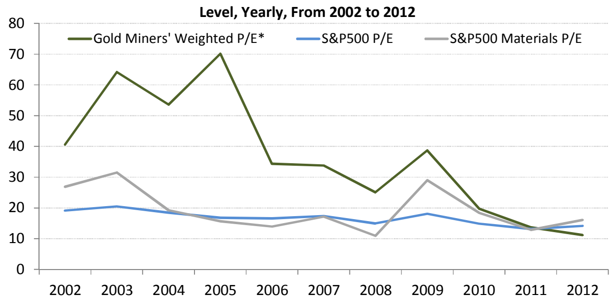
Simona Gambarini, Associate Director - Research research@etfsecurities.com

The sharp divergence between gold miners' share prices and the gold price over the past two years has caused investors to question whether there might be a fundamental reason behind the relative underperformance of miners. In this report we investigate recent developments in the industry that might have weighed on gold miners' share prices performance and assess under what circumstances gold equities may again start to outperform the gold price.

Gold Miners Discount To Gold Price Continues To Rise

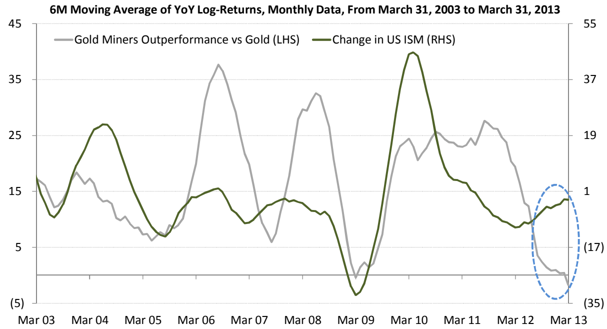
Historically, gold miners traded at a premium to most other equity sectors including the broader mining sector, but this is no longer the case. In addition, over the past two years, the performance of gold miners' share prices have substantially diverged from the performance of gold. While there should be a strong relationship between gold miners and the physical commodity, macroeconomic factors have been partially to blame for driving a wedge between company valuations and their main revenue source. As the gold price has been driven by concerns about currency debasement and European sovereign risks, these same concerns adversely affected broader equity markets, in turn weighing on gold miners' share prices. The sluggish performance of gold mining stocks in recent years contrasts to the broader materials sector performance (Figure 1). Historically, gold miners have tended to outperform gold during periods of rising global business activity, as measured by the US Manufacturing ISM index. Conversely, gold generally outperforms gold miners when growth is slowing and the global economy is in a downturn. However, recently this relationship appears to have broken down (Figure 2). With growth in the US and China now starting to pick up again and most stock markets hitting multi-year highs, gold miners are trading at a 53% discount to gold and 114% below their 10-year average vs gold (Figure 3), causing many investors to wonder whether their undervaluation may be explained by their underlying business fundamentals and management choices and how

Figure 1 – Is the De-Rating of Gold Miners Finally Over?



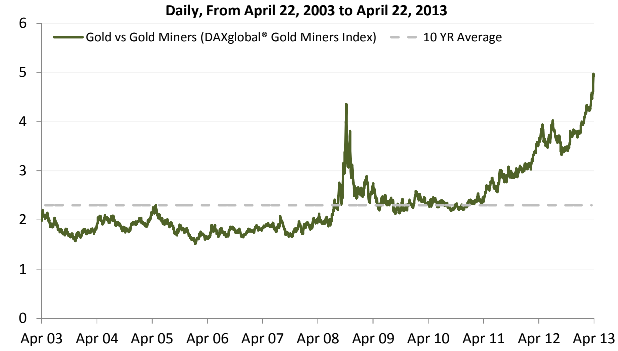
Source: Bloomberg, ETF Securities
* Average P/E ratio weighted for each company's market capitalisation at the end of each year. The companies included in the calculations are the main senior and mid-tier gold miners available on Bloomberg.

Figure 2 - Gold Miners' Outperformance During Growth Upturns Has Broken Down



Source: Bloomberg, ETF Securities
* DAXGlobal Gold Miners Index.

Figure 3 - Price: Ratio of Gold to Gold Miners Is at Historic High



Source: Bloomberg, ETF Securities

long this de-rating is going to persist.

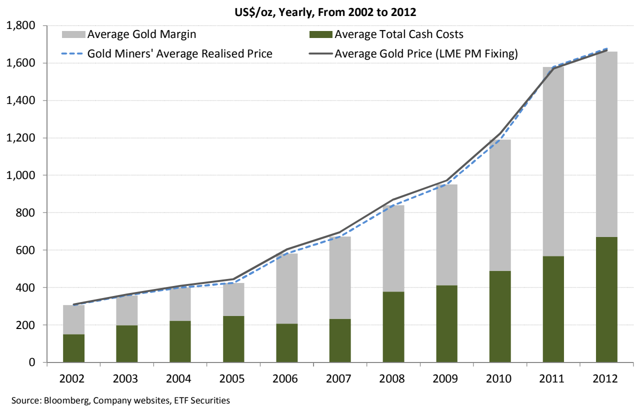
Cash costs and Margins

The cost of producing an ounce of gold has soared at an annual compounded growth rate of 16% over the past ten years. The average cash cost of extracting an ounce of gold from the ground is estimated to have been around US$671 in December 2012 compared to US$151 in 2000 (Figure 4). As the amount of gold in a mine nears exhaustion, mining becomes more difficult and costlier. Higher prices for mining inputs such as energy, labour and equipment have put mining bottom lines under increasing pressure. However, producers' progressive de-hedging (Figure 5) and the rising gold price have allowed gold miners' margins to expand, outpacing the rise in cash costs over the past 10 years. With the average realised price increasing at an annual compounded rate of over 20%, gold miners should have been able to secure substantial profits over the years. However, company valuations have continued to languish even as reported margin expansion has occurred.

Exploration: How Much of an Impact?

Reserve replacement is probably the biggest challenge gold miners are faced with and the very high cost of exploration is eroding their profits. According to the Metals Economics Group (MEG), only 99 new deposits containing over 2moz of gold were found between 1997 and 2011, for a total of 743moz of new gold reserves (Figure 7). Those discoveries have replaced only 54% of the gold mined during the fourteen year span[1] to 2011, leaving a production gap that has undermined gold miners' performance over the past years. The challenge for gold companies is that not only are new deposits increasingly difficult to find, but it appears all the easily extractable gold has already been found, as evidenced by the declining trend in miners' reserves

Figure 4 - Gold Miners' Average* Cash Costs and Margins over the Past 10 Years



* Average calculated on the following largest companies included in the DAXglobal Gold Miners Index: Barrick Gold Corp., Goldcorp, Newmont Mining Corp., Kinross Gold, Agnico-Eagle Mines, Eldorado Gold Corp., Yamana, Anglogold Ashanti, Randgold Resources, Gold Fields, and Harmony Gold Mining. Cash costs include direct mining costs, direct processing costs, direct general and administration costs, consulting fees, management fees, bullion transport and refining charges but exclude exploration costs.

Figure 5 - Gold Miners Global Gold Hedge Book

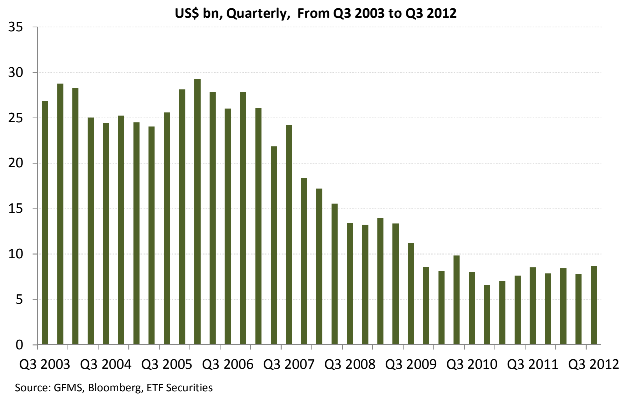
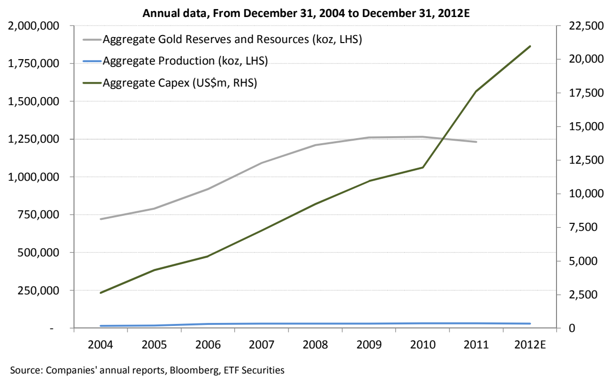


Figure 6 - Gold Miners* Capital Expenditure Is Escalating While Gold Reserves and Production Have Remained Flat



* The gold mining companies included in the calculations are: Barrick, Goldcorp, Newcrest, Newmont, Yamana, Randgold, Anglogold Ashanti, Kinross, Agnico Eagle, Eldorado, Gold Field and Iamgold.

[1] MEG calculations made assuming a 75% resource-conversion ratio and a 90% recovery rate during the production. Mining would have to be economical under those circumstances.

(Figure 6).

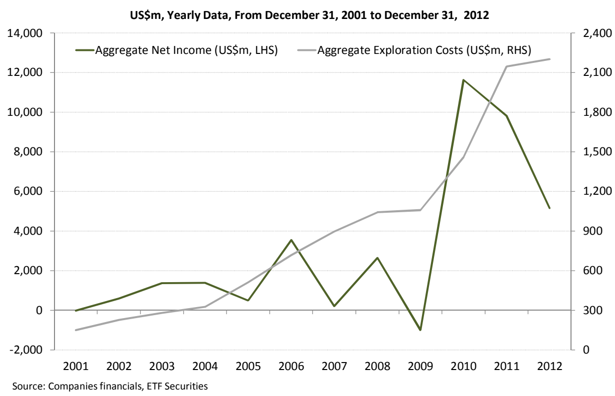
Once exploration and project development costs are taken into account, the total cost miners are faced with increases substantially (Figure 8).

Figure 7: Major Global Gold Discoveries From 1997 to 2011 - Percentage of Gold Contained in Reserves, Resources and Past Production (Expressed as a % of 743moz of gold, i.e. amount of new gold reserves discovered over the period)

Source: MEG's Gold Reserves Replacement Strategies, 2012

As most of those costs are capitalised and treated as an asset from an accounting perspective, the impact on miners' financials can be distorted, as capitalised costs would not be immediately recognised in the profit and loss account, unlike cash costs. The impact of these costs on miners' profitability is substantial when one considers that exploration expenditure has grown at an annual compounded rate of over 28% year-on-year since 2001 vs an annual increase in cash costs of 16% over the same period (Figure 8). However, they are not the only cost component to consider. In order to convert exploration into mining and mining into production, miners are faced with new investment and sustaining capital expenditure (Figure 6).

Figure 8 - Gold Miners' Profitability Is Weighed Down By Sky-Rocketing Exploration Costs*



Source: Companies financials, ETF Securities

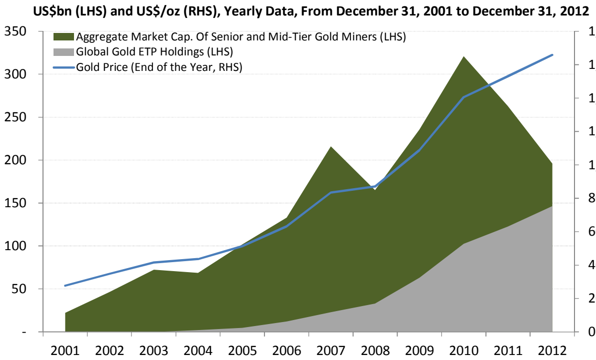
* The gold mining companies included in the calculations are: Barrick, Goldcorp, Newcrest, Newmont, Yamana, Randgold, Anglogold Ashanti, Kinross, Agnico Eagle, Eldorado, Gold Field and Iamgold.

Once that these outlays are taken into account, the cost of producing an ounce of gold almost triples to over US$1,500oz, making mining unprofitable for many companies. Skyrocketing exploration costs are likely one of the key reasons for the underperformance of the gold mining sector on the stock market (Figure 8). However, mining companies have become increasingly aware that lack of transparency and over-budget projects are an issue for the sustainability of the industry. Some of the biggest miners, from Barrick Gold to Newmont, have undertaken drastic changes at management level and embraced a high-margin low-cost strategy. This could bring miners back in favour, reversing the current de-rating process.

The Rise of Gold ETPs

While gold miners have historically traded at a premium to other equity sectors, their P/E ratios have fallen below those of the S&P500 and of the base metal miners. Based on historical P/E ratios[2], gold miners are now trading 70% below their 10-year average and 48% below their 5-year average. While the average P/E ratio of the companies constituting the S&P500 and the material sector within the S&P500 dropped by 26% and 40% respectively over the past 10 years, gold miners' multiple fell by over 70% over the same period (Figure 1).

Figure 9 - Gold ETPs vs Gold Miners*



Source: Bloomberg, ETF Securities
*The calculations include all major senior and mid-tier gold miners identified by Bloomberg.

This trend is unlikely to continue, given the changes that the industry as a whole is undertaking. Although the recent changes in management and strategy will take time to produce a material impact on the industry, with average P/Es now below the mining sector average, current valuations may set a floor to any further de-rating. While poor management, skyrocketing costs and lack of new mine production probably had an impact on the drop in gold miners' P/E values, the introduction of gold ETPs may also have played a role by giving investors alternative access to the gold price performance. Since the introduction of the world first physically-backed gold exchange-traded product in 2003 by ETF Securities, the gold market has undergone radical changes. Prior to the advent of gold ETPs, many investors interested in gaining exposure to gold had to rely on gold mining stocks. Gold ETPs have made it easier for investors to gain direct exposure to the gold price, removing the need to own gold miners in order to get exposure to gold price moves. From its peak in 2010, the gold mining sector has lost approximately US$125bn in market capitalisation; over the same period gold ETP holdings have increased by US$45bn (Figure 9). The two are not necessarily directly linked, but anecdotal evidence indicates that some investors have chosen to get their gold exposure through ETPs rather than through gold miners.

The Benefits of Investing in Gold Miners

Despite the poor performance of gold miners' shares over the past couple of years, investors should not disregard the potential benefits of investing in the mining sector. Over the past ten years, gold miners have tended to outperform the gold price during periods of rising global business activity, as measured by the US ISM Manufacturing index (Figure 2). In addition, in terms of portfolio allocation, an investor can potentially benefit from broader diversification and both gold and gold miners appear to have good diversification properties. The table below (Figure 10) shows how the risk-return profile of a portfolio has been improved by adding gold and gold miners' shares to an allocation of bonds and equities. Although gold has offered the best opportunities in terms of improving the risk-return profile, a basket of mining stocks can also aid diversification of a traditional bond and equity portfolio (Figure 11).

[2] Price/Earnings ratios for the gold mining sector are calculated as the average Price/Earnings ratios for major senior and mid-tier gold miners, weighted for their market capitalisation at the end of each year.

Figure 10 - Portfolio Allocation Exercise: How Investing in Gold Miners' Shares and Gold Can Improve the Risk-Return Profile of a Portfolio (10-year data)

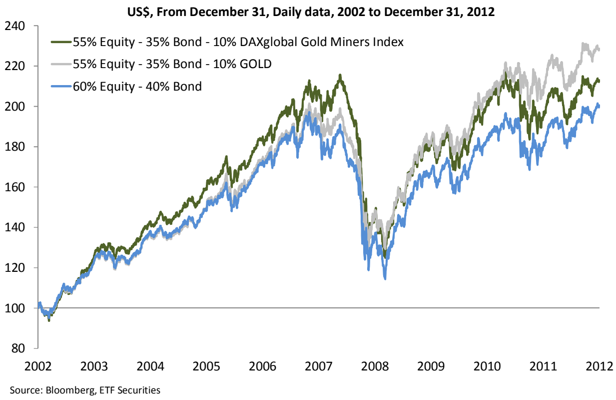
	Return	Risk	Sharpe	Correlation with Equity	Correlation with Bond	Correlation with PTF E&B
Equity = MSCI AC World	**8.1%**	**17.0%**	**0.37**	1.000	0.142	0.992
Bond = Barclays Capital Bond Composite-Global Index	**5.7%**	**4.0%**	**0.99**	0.142	1.000	0.247
60% Equity - 40% Bond	7.2%	11.2%	0.48	0.992	0.247	1.000
DAXglobal Gold Miners Index	**12.4%**	**20.0%**	**0.53**	0.607	0.106	0.600
59% Equity - 39% Bond - 2% DAXglobal Gold Miners Index	7.3%	7.1%	0.78	0.992	0.245	0.999
58% Equity - 38% Bond - 5% DAXglobal Gold Miners Index	7.5%	7.1%	0.80	0.987	0.240	0.993
55% Equity - 35% Bond - 10% DAXglobal Gold Miners Index	7.9%	7.3%	0.83	0.972	0.231	0.977
GOLD	**16.9%**	**18.7%**	**0.81**	0.198	0.286	0.231
59% Equity - 39% Bond - 2% GOLD	7.5%	7.1%	0.80	0.989	0.258	0.998
58% Equity - 38% Bond - 5% GOLD	7.9%	7.1%	0.87	0.977	0.272	0.989
55% Equity - 35% Bond - 10% GOLD	8.6%	7.0%	0.97	0.943	0.291	0.960

Source: Bloomberg, ETF Securities. Annualised data from December 31, 2002 to December 31, 2012.

An investor that substituted 10% of his equity and bond exposure with the returns of the DAXglobal® Gold Miners Index would have potentially increased his portfolio returns by 0.7 percentage point p.a. and decreased the riskiness of the portfolio by almost 4 percentage points. This portfolio would therefore have provided a higher Sharpe ratio compared to a more traditional allocation. However, a portfolio allocating 10% of its total exposure to gold would have had the best Sharpe ratio, as gold's low correlation with other asset classes allowed it to substantially improve the risk-return profile of the portfolio.

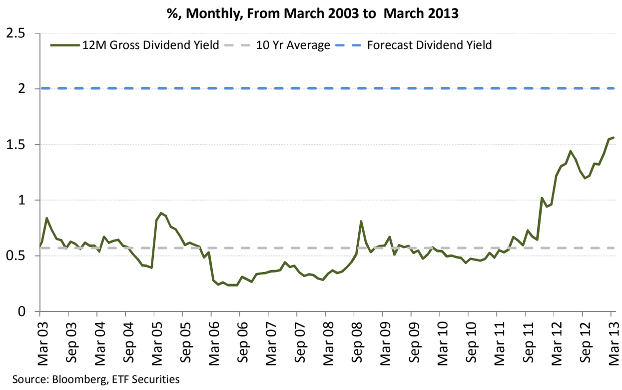
Yield investors looking for income might also find gold mining stocks increasingly attractive. Although dividend yields in the gold mining industry have traditionally been low compared to other sectors, some companies are now distributing bigger dividends (Figure 12). Over the past six months, average dividends distributed by gold miners have more than doubled to over 1.5%. This trend is likely to continue as scarcity of profitable projects is increasingly forcing companies' management to reward investors via higher dividends.

Figure 11 - Better Diversification Can Be Achieved by Adding Gold and Gold Miners to a Portfolio



Source: Bloomberg, ETF Securities

Figure 12 - Historical and Forecast Dividend Yield for Gold Miners*



Source: Bloomberg, ETF Securities

* The gold mining companies included in the calculations are: Barrick Gold, Goldcorp, Newcrest Mining, Newmont, Yamana, Randgold, Anglogold Ashanti, Kinross, Agnico-Eagle, Eldorado, Gold Fields, Iamgold, New Gold, Zijin Mining, Osisko, and Franco-Nevada. The historical and forecast dividend yields for the index were calculated by using a weighted average of the above companies, with the DAXGlobal Gold Miners Index weightings (as of March 31, 2013) as the weights. Bloomberg consensus was used for forecast dividend yields for single companies.

Conclusions

Gold miners' shares have historically tended to be strongly correlated with the gold price, but this trend has declined in recent years. While the business fundamentals of miners as measured by margins and cash costs appear robust, a closer inspection of exploration and capital expenditures reveals a completely different picture. Lack of new discoveries, coupled with extinguishing brown-fields, has left mining companies with a production gap and cost that has undermined their performance. The introduction of gold ETPs has also provided investors with a more direct alternative to gaining exposure to gold price moves. However, mining companies have become increasingly aware of the lack of transparency and over-budget projects in the industry and are undertaking some drastic changes to reverse the current de-rating to the gold price. Gold miners have historically tended to outperform gold during periods of rising global growth and their valuations have now dropped from a substantial premium, to a discount to broad mining sector valuations, indicating likely limited scope for further de-rating. In addition, for investors that want yield, gold miners are starting to increase their dividend payments. With China and the US showing signs of economic recovery and equities back in favour, there may be scope for miners to begin to claw back some of their performance gap to gold.

Important Information

General

This communication has been provided by ETF Securities (UK) Limited ("ETFS UK") which is authorised and regulated by the United Kingdom Financial Services Authority ("**FSA**"). The products discussed in this communication are issued by ETFS Commodity Securities Limited ("**CSL**"), ETFS Hedged Commodity Securities Limited ("**HCSL**"), ETFS Hedged Metal Securities Limited ("**HMSL**"), ETFS Foreign Exchange Limited ("**FXL**"), ETFS Industrial Metal Securities Limited ("**IML**"), ETFS Metal Securities Limited ("**MSL**"), ETFS Oil Securities Limited ("**OSL**"), Gold Bullion Securities Limited ("**GBS**" and, together with CSL, HCSL, HMSL, FXL, IML, MSL and OSL, the "**Issuers**") and ETFX Fund Company plc (the "**Company**"). Each Issuer is regulated by the Jersey Financial Services Commission. The Company is an open-ended investment company with variable capital having segregated liability between its sub-funds (each a "**Fund**") and is organised under the laws of Ireland. The Company is regulated, and has been authorised as a UCITS by the Central Bank of Ireland (the "**Financial Regulator**") pursuant to the European Communities (Undertaking for Collective Investment in Transferable Securities) Regulations, 2003 (as amended).

Italy: When being made within Italy, this communication is for the exclusive use of the "qualified investors" and its circulation among the public is prohibited.

Switzerland: When being made within Switzerland, this communication is for the exclusive use by "Qualified Investors" (within the meaning of Article 10 of Section 3 of the Swiss Collective Investment Schemes Act ("**CISA**") and its circulation among the public is prohibited.

US: This communication is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the Issuers, the Company or any securities issued by them are authorised or registered for distribution and where no prospectus for any of the Issuers or the Company has been filed with any securities commission or regulatory authority. Neither this communication nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States. Neither the Issuers, the Company nor any securities issued by them have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This communication may contain independent market commentary prepared by ETFS UK based on publicly available information. ETFS UK does not warrant or guarantee the accuracy or correctness of any information contained herein and any opinions related to product or market activity may change. Any third party data providers used to source the information in this communication make no warranties or representation of any kind relating to such data.

Any historical performance included in this communication may be based on back testing. Back tested performance is purely hypothetical and is provided in this communication solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. Historical performance is not an indication of or a guide to future performance.

The information contained in this communication is neither an offer for sale nor a solicitation of an offer to buy securities nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchaser or sale would be unlawful under the securities law of such jurisdiction. This communication should not be used as the basis for any investment decision.

ETFS UK is required by the FSA to clarify that it is not acting for you in any way in relation to the investment or investment activity to which this communication relates. In particular, ETFS UK will not provide any investment services to you and or advise you on the merits of, or make any recommendation to you in relation to, the terms of any transaction. No representative of ETFS UK is authorised to behave in any way which would lead you to believe otherwise. ETFS UK is not, therefore, responsible for providing you with the protections afforded to its clients and you should seek your own independent legal, investment and tax or other advice as you see fit.

Risk Warnings

Securities issued by the Issuers and the Company are structured products involving a significant degree of risk and may not be suitable for all types of investor. This communication is aimed at sophisticated, professional and institutional investors. Any decision to invest should be based on the information contained in the prospectus (and any supplements thereto) of the relevant Issuer or the Company which includes, inter alia, information on certain risks associated with an investment. The price of any securities may go up or down and an investor may not get back the amount invested. Securities may be priced in US Dollars, Euros, or Sterling, and the value of the investment in other currencies will be affected by exchange rate movements. Investments in the securities of the Issuers or the shares of the Company which provide a short and/or leveraged exposure are only suitable for sophisticated, professional and institutional investors who understand leveraged and compounded daily returns and are willing to magnify potential losses by comparison to investments which do not incorporate these strategies. Over periods of greater than one day, investments with a short and/or leveraged exposure do not necessarily provide investors with a return equivalent to a return from the unleveraged long or unleveraged short investments multiplied by the relevant leverage factor.

Investors should refer to the section entitled "Risk Factors" in the relevant prospectus for further details of these and other risks associated with an investment in the securities offered by the Issuers and the Company.

The relevant prospectus for each Issuer and the Company may be obtained from www.etfsecurities.com. Please contact ETFS UK at +44 20 7448 4330 or info@etfsecurities.com for more information.

Issuers

General: The FSA has delivered to the regulators listed below certificates of approval attesting that the prospectuses of the Issuers indicated have been drawn up in accordance with Directive 2003/71/EC.

For Dutch, French, German and Italian Investors: The prospectuses (and any supplements thereto) for each of the Issuers have been passported from the United Kingdom into France, Germany, Italy and the Netherlands and have been filed with the l'Autorité des Marchés Financiers (AMF) in France, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) in Germany, CONSOB and the Bank of Italy in Italy and the Authority Financial Markets (Autoriteit Financiële Markten) in the Netherlands. Copies of prospectuses (and any supplements thereto) and related regulatory documentation, including annual reports, can be obtained in France from HSBC France, 103, Avenue des Champs Elysées, 75008 Paris, in Germany from HSBC Trinkhaus & Burkhardt, AG, Konsortialgeschäft, Königsalle 21/23, 40212 Dusseldorf and in the Netherlands from ABN AMRO Bank (Nederland) N.V. (t) +31 20 527 2467 or faxed request to +31 20 527 1928. The prospectuses (and any supplements thereto) for each of the Issuers may be distributed to investors in France, Germany, Italy and the Netherlands.

This communication is not a financial analysis pursuant to Section 34b of the German Securities Trading Act (*Wertpapierhandelsgesetz – WpHG*) and consequently does not meet all legal requirements to warrant the objectivity of a financial analysis and is also not subject to the ban on trading prior to the publication of a financial analysis.

This communication is not addressed to or intended directly or indirectly, to (a) any persons who do not qualify as qualified investors (gekwalificeerde beleggers) within the meaning of section 1:1 of the Dutch Financial Supervision Act as amended from time to time; and/or (b) in circumstances where other exemptions or dispensations from the prohibition the Dutch Financial Supervision Act or the Exemption Regulation of the Act on Financial Supervision apply.

None of the Issuers is required to have a license pursuant to the Dutch Financial Supervision Act as it is exempt from any licensing requirements and is not regulated by the Netherlands Authority for the Financial Markets and consequently no prudential and conduct of business supervision will be exercised.

For Austrian, Danish, Finnish, Portuguese, Spanish and Swedish Investors: The prospectuses (and any supplements thereto) for each of CSL, HCSL, HMSL, IML, MSL and FXL have been passported from the United Kingdom into Austria, Denmark, Finland, Portugal, Spain, Sweden and have been filed with Österreichische Finanzmarktaufsicht (Austrian Financial Market Authority) in Austria, Finanstilsynet (Financial Supervisory Authority) in Denmark, Finanssivalvonta (Finnish Financial Supervisory Authority) in Finland, , Comissão do Mercado de Valores Mobiliários (Portuguese Securities Market Commission) in Portugal, Comisión Nacional del Mercado de Valores (Securities Market Commission) in Spain and the Finansinspektionen (Financial Supervisory Authority) in Sweden. The prospectuses (and any supplements thereto) for these entities may be distributed to investors in Austria, Finland, Portugal, Spain, Denmark and Sweden.

For Belgian Investors: The prospectus (and any supplements thereto) for GBS has been passported from the United Kingdom into Belgium and has been filed with the Commission Bancair, Financiére et des Assurances in Belgium. The prospectus (and any supplements thereto) for GBS may be distributed to investors in Belgium.

Other than as set out above investors may contact ETFS UK at +44 (0)20 7448 4330 or at info@etfsecurities.com to obtain copies of prospectuses and related regulatory documentation, including annual reports. Other than as separately indicated, this communication is being made on a "private placement" basis and is intended solely for the professional / institutional recipient to which it is delivered.

Securities issued by each of the Issuers are direct, limited recourse obligations of the relevant Issuer alone and are not obligations of or guaranteed by any of UBS AG ("UBS"), Merrill Lynch Commodities Inc. ("**MLCI**"), Merrill Lynch International ("**MLI**"), Bank of America Corporation ("**BAC**"), Shell Trading Switzerland, Shell Treasury, HSBC Bank USA N.A., JP Morgan Chase Bank, N.A., Morgan Stanley & Co International plc, Morgan Stanley & Co. LLC, Deutsche Bank AG any of their affiliates or anyone else or any of their affiliates. Each of UBS, MLCI, MLI, BAC, Shell Trading Switzerland, Shell Treasury, HSBC Bank USA N.A., JP Morgan Chase Bank, N.A., Morgan Stanley & Co International plc, Morgan Stanley & Co. LLC and Deutsche Bank AG disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above) which it might have in respect of this communication or its contents otherwise arising in connection herewith.

The Dow Jones-UBS Commodity IndexesSM are a joint product of Dow Jones Opco, LLC ("**Dow Jones Opco**"), a subsidiary of S&P Dow Jones Indices LLC, and UBS Securities LLC ("**UBS**"), and have been licensed for use. Dow Jones® and DJ are trademarks of Dow Jones Trademark Holdings LLC. UBS® is a registered trademark of UBS AG. S&P® is a registered trademark of Standard & Poor's Financial Services LLC. The securities issued by CSL and HCSL although based on the Dow Jones-UBS Commodity IndexesSM, are not sponsored, endorsed, sold or promoted by Dow Jones, UBS, Dow Jones Opco or any of their respective subsidiaries or affiliates, and none of Dow Jones, UBS, Dow Jones Opco or any of their respective affiliates, makes any representation regarding the advisability of investing in such product(s).

The Morgan Stanley Indices are the exclusive property of Morgan Stanley & Co. LLC ("**Morgan Stanley**"). Morgan Stanley and the Morgan Stanley index names are service mark(s) of Morgan Stanley or its affiliates and have been licensed for use for certain purposes by ETF Securities Limited in respect of the securities issued by FXL and HMSL. The securities issued by FXL and HMSL are not sponsored, endorsed, or promoted by Morgan Stanley, and Morgan Stanley bears no liability with respect to any such securities. The prospectuses of FXL and HMSL contain a more detailed description of the limited relationship Morgan Stanley has with each of FXL and HMSL and any related securities. No purchaser, seller or holder of securities issued by FXL, HMSL or any other person or entity, should use or refer to any Morgan Stanley trade name, trademark or service mark to sponsor, endorse, market or promote this product without first contacting Morgan Stanley to determine whether Morgan Stanley's permission is required. Under no circumstances may any person or entity claim any affiliation with Morgan Stanley without the prior written permission of Morgan Stanley.

Funds

Ireland: This communication has prepared for delivery to professional investors in the Republic of Ireland and other countries of the European Union/European Economic Area in which certain of the Funds are registered with the local financial regulator. Please contact ETFS UK at +44 (0)20 7448 4330 or at info@etfsecurities.com for further information of the Company and details as to which countries and to which category of investors this communication can be communicated.

Denmark*:* This communication cannot be communicated to investors in Denmark except in response to their unsolicited request.

Netherlands: Each Fund has been registered with the Netherlands Authority for the Financial Markets following the UCITS passport-procedure pursuant to section 2:72 of the Dutch Financial Supervision Act.

France*:* Any subscription for shares of the Funds will be made on the basis of the terms of the prospectus, the simplified prospectus and any supplements or addenda thereto. The Company is a UCITS governed by Irish legislation and approved by the Financial Regulator as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. Certain of the Funds have been registered for marketing in France by the Authority Financial Markets (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the prospectus (including any supplements or addenda thereto, the key investor information documents (KIIDs), the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge, at the French Centralizing Agent, Société Générale, Securities Services, at 29 Boulevard Haussmann – 75009 Paris – France.

Germany: The offering of the shares of the remaining Funds has been notified to the German Financial Services Supervisory Authority in accordance with section 132 of the German Investment Act. The prospectus (including any supplements or addenda thereto, the key investor information documents (KIIDs), copies of the memorandum and articles of association of the Company and the annual and semi-annual report can be obtained free of charge upon request at the Paying and Information Agent in Germany, HSBC Trinkaus & Burkhardt AG, Königsallee 21-23, 40212 Düsseldorf. The current offering and redemption prices as well as the net asset value and possible notifications of the investors can also be requested free of charge at the same address. In Germany the shares will be settled as co-owner shares in a Global Bearer certificate issued by Clearstream Banking AG. This type of settlement only occurs in Germany because there is no direct link between the English and German clearing and settlement systems Crest and Clearstream. For this reason the ISIN used for trading of the shares in Germany differs from the ISIN used in other countries.

Norway*:* The Company and certain of the Funds have been registered with the Financial Supervisory Authority of Norway (Finanstilsynet), and may be marketed and sold to professional investors in Norway.

Other than as separately indicated, this communication is being made on a "private placement" basis and is intended solely for the professional / institutional recipient to which it is delivered.

None of the index providers of the Funds referred to herein nor their licensors make any warranty or representation whatsoever either as to the results obtained from use of the relevant indices and/or the figures at which such indices stand at any particular day or otherwise. None of the index providers shall be liable to any person for any errors or significant delays in the relevant indices nor shall be under any obligation to advise any person of any error or significant delay therein.