# STREAMERS

## A River of Gold

***"A mine is a hole in the ground with a fool at the bottom and a crook at the top." –*** **Mark Twain**

In May we laid out the case that a new cyclical bull market in gold had begun - Win-Win Case for a Bull Market in Gold – Part 1. As an advisor or individual, you may be looking for a lower risk way to invest in gold. One relatively unknown yet very attractive way we invest in gold is through precious metal royalty companies or "streamers." These companies possess a simple and profitable business model that captures the benefits from investing in gold while minimizing the drawbacks. Streaming and royalty companies (both referred to as "streamers" in the rest of this article) provide early stage financing specifically for mine development. It may be helpful to think of them as providing venture capital or banking services to the mining industry. They receive either a royalty payment on future production or a "stream" as an exchange for an upfront cash investment. A stream is the right to purchase a percentage of future production at a very low fixed price for the life of the mine. In simple terms, streamers share in the success of mining projects without incurring any of the operating risks. Even a skeptical Mark Twain would be impressed with this novel mining investment model.

### *5 KEY STREAMER ADVANTAGES*

Streamers fit the description of a conservative way to invest in precious metals for five powerful reasons. First, after initial funding of a project, they have no further obligation to ongoing expenses. They are not subject to operational risks that miners face such as rising costs, labor or equipment problems, grade margins or reclamation expenses. They simply get the opportunity to share in the revenues of the mine. Second, the largest streaming companies have seasoned management teams and use their industry knowledge to pick and choose only the strongest partners and projects with the best prospects. Third, streaming agreements are attached to the land, not the operator. In the event of a bankruptcy or a change in operators, the agreement still stands – further protecting the streaming company from business risk. A fourth advantage is the concept of optionality, or a free pass into the future (more on this advantage later). Lastly, streamers diversify their investments over dozens, even hundreds of projects and jurisdictions, far more than the individual mining company whose exposure may be limited to a handful of mines. As a result, streaming companies have assembled world class precious metal portfolios while incorporating many layers of risk protection in their business model.

### *2011- 2015: THE PERFECT STORM FOR STREAMERS*

Gold experienced a ten year bull market run from 2001 until 2011 and miners prospered when revenues expanded faster than costs, so growth of production was the only paramount consideration. Mining companies made major acquisitions leading up to the cyclical peak in 2011 and loaded up their balance sheets with debt. Long bull markets tend to create a sense of complacency and sloppiness in financial thinking. This groupthink unrealistically projected rising trends long into the future, and is a perfect example why we base our investment decisions on business cycle turning points. Stocks, bonds, commodities, and certainly mining are and will always be cyclical. Sure enough, gold prices peaked above $1900 in 2011 and then slipped down to a recent 2015 low around $1050. This left many miners with plunging profits and stock prices. Case in point, the Philadelphia Gold and Silver Index (XAU) declined a whopping 84% during the four year bear market. Since many of these equities were selling below their book value, this effectively shut the financing window, and the companies found themselves starved for new capital. Many had to clean up their balance sheets by selling subsidiaries at very low prices and/or close down unprofitable mines. The past few years, however created the perfect storm for well financed streamer companies to negotiate great deals for themselves. In fact, the four largest streamers committed a staggering $5 billion in new projects this past year alone on extremely favorable terms. These agreements last many years so the streamers will be ensured a long profitable run even if the price of gold merely stabilizes. If gold prices advance then that's even better, of course.

### *OPTIONALITY: BIG UPSIDE POTENTIAL*

An important term, optionality, means financing agreements generally last for the duration of the mine operation. A mine typically starts out on a small scale, but through further exploration of the land, can become a bonanza to the streamer as payments grow over a period of years or even decades. The classic example is Franco-Nevada's original $2 million investment in 1985 for a royalty on a Nevada mine, the Goldstrike, whose initial reserves were originally 500,000 ounces. Thirty-one years later, the mine has produced 40 million ounces and still going strong as its life is extended as the company finds more mineable ore. Franco's original investment has returned close to $1 billion in revenue over the past 30 years and this year alone will pay another $20 million. Big upside potential with limited downside risk- that is optionality! In a recent interview, Pierre Lassonde, chairman of Franco, reported, "If someone hands you a free perpetual option on 6 million acres of land … don't you think that at some point, you're going to get lucky?" This concept is one of the most important and exciting possibilities in the life of a streamer, and profitability for their eventual returns. As Forrest Gump might say, "Streaming deals are like a box of chocolates. You never know what you're gonna get".

### *A STREAMER, A MINING COMPANY, OR BOTH…?*

An interesting question indeed, is which entity type is best? At Pring Turner we take a slightly different approach than most. We break down our investments into core and tactical positions. Core represents our more permanent positions, those with only the highest standards of quality, value and income within the equity universe. While our tactical investments may hold many of the same standards, these positions are in fact planted or pruned depending on the current stage of the business cycle, relative strength or weakness, and sentiment extremes. We consider streamers as core investments within the precious metals space because of their low risk business models. Considering the consistent growth of production, or gold equivalent ounces (GEO) – an industry wide production metric, and given future visibility, we believe this steady operating performance will advance well into the future. The chart below depicts the relatively consistent growth of industry wide streamer production during the entire 4-year bear market in gold.

***DESPITE A DEVASTATING 4 YEAR BEAR MARKET IN GOLD PRICES…***

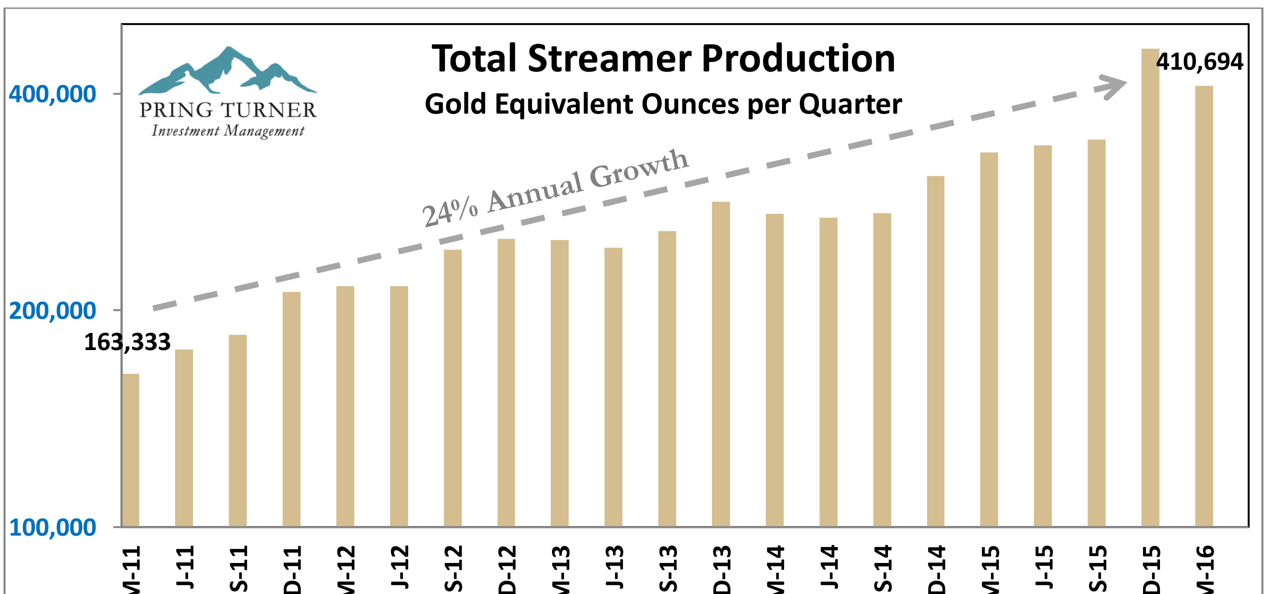


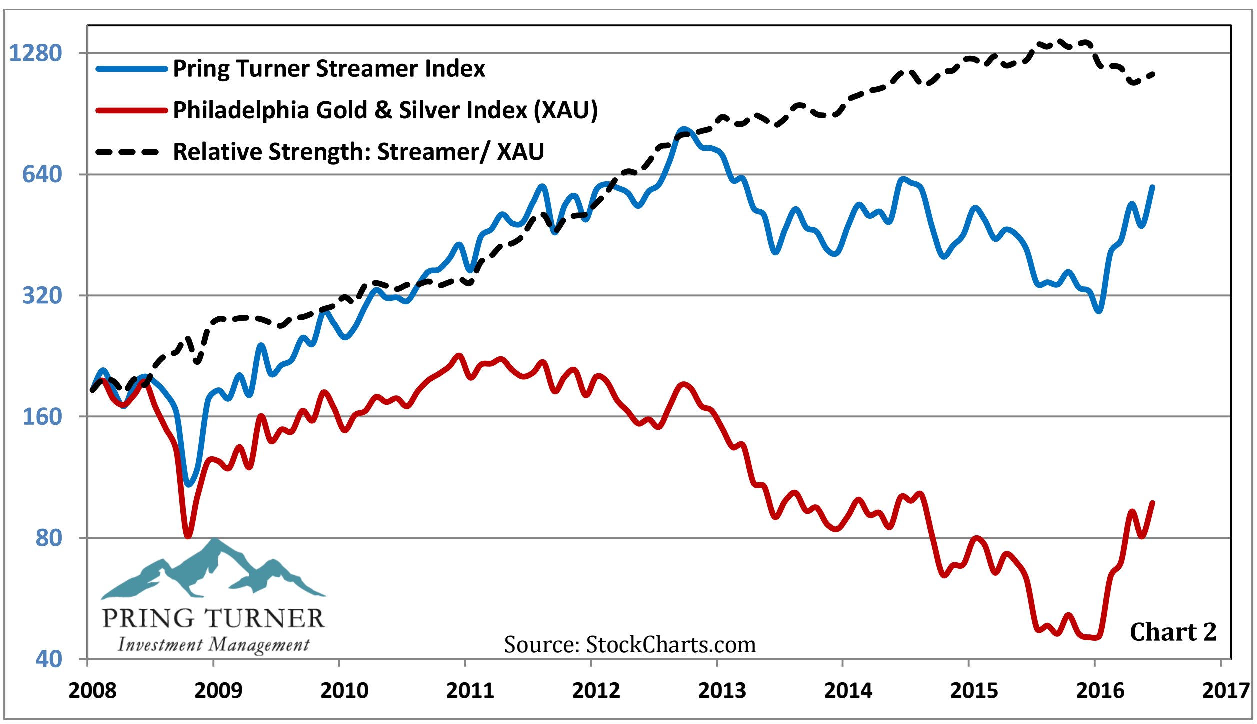

**Chart 1** Sources: Corporate Documents from: Silver Wheaton Corp, Franco-Nevada Corp, Royal Gold , Inc., and Sandstorm Gold Ltd.

***… STREAMERS COMPOUNDED PRODUCTION AT 24% ANNUALLY!***

Throughout the brutal 4-year bear market in gold prices, streamer production grew at a compounded 24%, a rate that doubles output every 3 years. Consistent production and revenue growth leads to higher dividend payments. For example Royal Gold has raised its dividend each year for the past 15 years and Franco Nevada not far behind with 7 consecutive years of raising its payout to shareholders, all the while gold has suffered one of its worst ever bear markets dropping over 45% from all time high prices in 2011! During this same recent period, mine operators Barrick Gold (ABX) and Newmont Gold (NEM) cut their dividends 89% and 93% respectively. Our clients have grown to appreciate the difference between core versus tactical investments—core being a more stable and quality performer.

We created the Pring Turner Streamer Index to make it easier for us to measure price performance and analyze trends and relative strength to take best advantage of an ever-shifting metals bull and bear market. The Pring Turner Streamer Index is an equally weighted index comprised of the four largest streaming companies. The Streamer Index, when measured against their mining company brethren (Philadelphia Gold and Silver Index – XAU), can also answer when to add or subtract tactical and core precious metals positions in portfolios. The chart below illustrates the superior streamer business model with the Pring Turner Streamer Index consistently outperforming the XAU Gold and Silver Index during the past eight years. Importantly, this performance advantage was generated within both a cyclical bull and bear market environment for precious metals. We invite you to visit our website to join our email list in order to ensure you receive future Pring Turner Stream Index updates. We welcome any queries on the index or how we invest in streamers for our clients and advisor relationships.

***PRING TURNER STREAMER INDEX FAR OUTPERFORMED THE XAU INDEX…***




***…THROUGH BOTH A BULL AND BEAR MARKET CYCLE.***

Let's summarize our key observations of Part I (Bull Market in Gold) and Part II (Streamers). First, our Real Interest Rate Trend Model for Gold Prices flashed a 'buy' signal earlier this year. This bullish backdrop is also supported by one of our business cycle models, the Inflation Barometer, which went bullish in May, indicating a friendlier environment for inflation sensitive investments. These models point to the opportunity to own both core and tactical precious metals investments.

However, after a quick and strong sprint higher since January, streamers and precious metals companies are entitled to take a breather and consolidate gains for a short time before expecting further advances. In our view, any pullback will give investors another opportunity to get aboard this new bull market. Streamers are poised to return outsized returns to investors if the bull market unfolds as the evidence currently displays.

## *CONCLUSION*

Streamers are unique companies which possess very predictable and profitable business models that should lead to their continued long-term outperformance over traditional gold mining companies. These companies reduce much of the risk of investing in precious metals because they give investors a more diversified portfolio of mine holdings, limited financial and legal exposure, plus all the upside of optionality. Over the past few years, streamers have taken advantage of the mining industry's problems to establish many favorable stream agreements that will likely yield growing revenues, profits and dividends for many years.

It is not known if the opening quote about mines, fools and crooks is correctly attributed to Mark Twain, but we do believe streamers are the ideal vehicle for conservative investors to invest in precious metals. Thanks to the streamers' elegant business model, shareholders can eliminate both the fool and crook, and still benefit from rising gold prices!

Thank you for reading.

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The Pring Turner Streamer Index is an equally weighted stock index comprised of the four largest publically traded precious metals streaming companies. The index includes: Silver Wheaton Corp (SLW), Franco-Nevada Corp (FNV), Royal Gold, Inc. (RGLD), and Sandstorm Gold Ltd. (SAND). The index is designed solely to track the stock performance of the previous metals streaming subindustry. The Pring Turner Streamer Index is calculated on a price only basis (excluding dividends) and is not assessed a management fee.