

Index Events: Corporate Action Calendar Update

MVIS Announces A Significant Methodology Change for the MVDXJ

Last night, Market Vector Index Solutions (MVIS) announced a significant methodology change to the MVIS Global Junior Gold Miners Index (MVDXJ). All changes related to this event will take effect at the June 2017 quarterly review (Determination Date: May 31, Announcement Date: June 9, Effective Date: June 16). As expected, MVIS will relax the small cap market capitalization requirement that prevents larger companies from qualifying for the index. **Companies that rank between 60% and 98% of the full market capitalization of the eligible universe will now be eligible for inclusion in the MVDXJ (compared to 80%-98% under the previous methodology).** According to our analysis, this will increase the market capitalization range for new constituents to USD 75M – USD 2.9B (from USD 75M – USD 1.6B under the previous methodology). We estimate the methodology change will result in 23 index additions without any deletions; however, four of the 23 additions (**AGI UN, BTG UA, IAG UN, and PVG UN**) are already in the portfolio that underlies the USD 5.5B VanEck Vectors Junior Gold Miners ETF (**UP: GDXJ**) as the ETF provider has not employed a full replication strategy since September 2016. As a result, we expect significant index buying in 19 of the 23 adds:

Benchmark Ticker	Name	Trade Value (USD)	Shares to Trade	Days to Trade
EVN AT	Evolution Mining Ltd	153,449,823	86,075,316	3.7
AUY UN	Yamana Gold Inc	209,168,676	69,261,151	4.2
GFI UN	Gold Fields Ltd	252,909,274	66,033,753	11.6
1818 HK	Zhaojin Mining Industry	56,984,981	61,334,230	4.4
CEY LN	Centamin PLC	128,889,598	56,825,779	5.6
NGD UA	New Gold Inc	160,825,740	48,883,203	5.4
EGO UN	Eldorado Gold Corp	162,649,919	45,816,878	4.4
NST AT	Northern Star Resources	140,212,113	41,139,909	8.2
OGC CT	OceanaGold Corp	135,554,210	40,968,867	13.9
IGO AT	Independence Group NL	91,552,303	33,763,689	7.4
HL UN	Hecla Mining Co	146,816,439	26,031,284	5.0
SBGL UN	Sibanye Gold Ltd	197,438,603	19,963,458	9.8
TAHO UN	Tahoe Resources Inc	148,903,000	17,076,032	3.6
ACA LN	Acacia Mining PLC	98,983,574	16,855,645	18.3
AG UN	First Majestic Silver Corp	130,332,411	14,120,521	2.8
DGC CT	Detour Gold Corp	175,913,263	13,554,107	4.4
CDE UN	Coeur Mining Inc	123,631,778	12,771,878	3.7
OSK CT	Osisko Mining Inc	50,820,508	12,440,710	7.4
PAAS UW	Pan American Silver Corp	221,497,654	12,163,518	5.5

What is the funding component? According to our analysis, forecasted additions could comprise 60.8% of the pro forma index portfolio. This means MVDXJ Indexers could have to sell USD 2.6B across existing index constituents to fund purchases in the additions. **We estimate each current index constituent will be for sale (with an average 7.2 days to trade) if our current forecast materializes. This is important because forecasted index selling represents 2.5%-8.0% of the total shares outstanding of each existing index constituent.** The largest funding trades are:

Benchmark Ticker	Name	Trade Value (USD)	Shares to Trade	Days to Trade
SMC CN	Sulliden Mining Capital Inc	(372,331)	(1,764,315)	6.8
SA UN	Seabridge Gold Inc	(26,422,202)	(2,248,698)	2.1
TXG CT	Torex Gold Resources Inc	(69,251,061)	(3,506,958)	4.8
DRD UN	DRDGOLD Ltd	(19,188,188)	(3,814,749)	12.2

RIC UN	Richmont Mines Inc	(33,787,968)	(4,070,840)	4.1
GORO UA	Gold Resource Corp	(17,882,155)	(4,082,684)	4.9
MAG UA	MAG Silver Corp	(57,627,467)	(4,107,446)	5.7
KOZAL TI	Koza Altin Isletmeleri AS	(24,022,391)	(4,221,941)	5.7
EDV CT	Endeavour Mining Corp	(88,299,603)	(4,476,726)	8.4
KLDX UA	Klondex Mines Ltd	(17,974,882)	(4,585,429)	1.3
SSRI UW	Silver Standard Resources	(66,307,534)	(5,836,931)	2.3
OR UN	Osisko Gold Royalties Ltd	(70,720,198)	(6,149,582)	4.3
CNL CT	Continental Gold Inc	(25,472,039)	(8,202,986)	5.6
SAND UA	Sandstorm Gold Ltd	(37,959,388)	(8,270,019)	4.3
DPM CT	Dundee Precious Metals Inc	(19,090,048)	(8,764,248)	17.3
WDO CT	Wesdome Gold Mines Ltd	(26,090,903)	(8,830,972)	3.5
PVG US	Pretium Resources Inc	(100,077,563)	(8,919,569)	2.2
KL CT	Kirkland Lake Gold Ltd	(74,201,709)	(9,270,323)	5.6
FSM UN	Fortuna Silver Mines Inc	(52,498,171)	(9,703,913)	3.8
EXK UN	Endeavour Silver Corp	(34,794,750)	(10,085,435)	3.4
AR CT	Argonaut Gold Inc	(19,678,079)	(10,238,775)	4.0
GDX US	Vectors Gold Miners ETF	(267,694,841)	(10,895,191)	0.2
GSV UA	Gold Standard Ventures	(22,700,104)	(11,127,502)	3.4
GUY CT	Guyana Goldfields Inc	(65,764,486)	(11,143,847)	8.5
PPP UN	Primero Mining Corp	(6,524,361)	(11,553,677)	7.0
AKG UA	Asanko Gold Inc	(33,670,189)	(11,897,593)	3.3
MUX UN	McEwen Mining Inc	(40,131,349)	(12,197,978)	2.8
PG CT	Premier Gold Mines Ltd	(31,636,060)	(12,273,311)	6.6
CG CT	Centerra Gold Inc	(73,536,765)	(12,737,412)	6.3
SVM CT	Silvercorp Metals Inc	(53,694,394)	(13,266,615)	8.8
HGM LN	Highland Gold Mining Ltd	(31,549,983)	(13,631,785)	5.0
WGX AT	Westgold Resources Ltd	(23,737,518)	(13,778,333)	2.4
GPL UA	Great Panther Silver Ltd	(22,082,615)	(13,888,437)	9.2
SMF CT	SEMAFO Inc	(46,388,646)	(14,619,585)	3.9
NG UA	Novagold Resources Inc	(79,202,634)	(16,000,532)	5.6
CGG CT	China Gold Intl Resources	(40,328,215)	(19,965,476)	22.2
HOC LN	Hochschild Mining PLC	(71,571,944)	(20,439,264)	7.2
SAR AT	Saracen Mineral Holdings	(16,969,788)	(20,880,259)	2.2
AGI US	Alamos Gold Inc	(182,091,569)	(21,247,558)	4.0
HMY UN	Harmony Gold Mining Co	(60,814,532)	(22,114,375)	4.3
SBM AT	St Barbara Ltd	(48,464,952)	(22,310,997)	4.0
ASR CT	Alacer Gold Corp	(47,397,533)	(23,035,548)	10.8
IAG US	IAMGOLD Corp	(105,726,776)	(23,236,654)	1.8
RRL AT	Regis Resources Ltd	(77,037,228)	(28,410,656)	6.1
GSS UA	Golden Star Resources	(26,499,659)	(30,113,249)	15.5
RSG AT	Resolute Mining Ltd	(37,628,609)	(36,270,837)	3.3
TGZ CT	Teranga Gold Corp	(22,634,937)	(37,076,585)	15.3
PGD LN	Patagonia Gold PLC	(819,510)	(38,532,786)	41.1
SLR AT	Silver Lake Resources Ltd	(17,343,370)	(39,243,765)	9.3
BTG US	B2Gold Corp	(117,650,862)	(40,153,878)	2.8
FF CV	First Mining Finance Corp	(24,937,508)	(41,882,386)	13.0
RMS AT	Ramelius Resources Ltd	(17,316,353)	(46,235,505)	10.4
PRU AT	Perseus Mining Ltd	(17,943,578)	(66,541,981)	7.8
BDR AT	Beadell Resources Ltd	(21,300,052)	(94,786,959)	8.6
Other/Cash	Other/Cash	(139,018,054)	N/A	N/A
1194 HK	Munsun Capital Group Ltd	(11,755,066)	(581,842,073)	21.0

What is the overlap with the GDX? We estimate the latest methodology change will create notable overlap with the NYSE

Arca Gold Miners Indexers (GDM), which is the benchmark for the larger (USD 12.4B) VanEck Vectors Gold Miners ETF (UP: GDX). According to our analysis, 79.2% of the pro forma MVGDJX could overlap with the GDM while only 35.1% of the GDM will overlap with the MVGDJX. We think this is reasonable given the GDM follows a modified market capitalization weighting scheme that prevents 100% overlap. Recall, the GDM reweights companies that have a starting index weight greater than 5% (large components) to 45% of the index (at each quarterly review). This is comprised primarily of stocks that will not qualify for the MVGDJX even under the revised methodology.

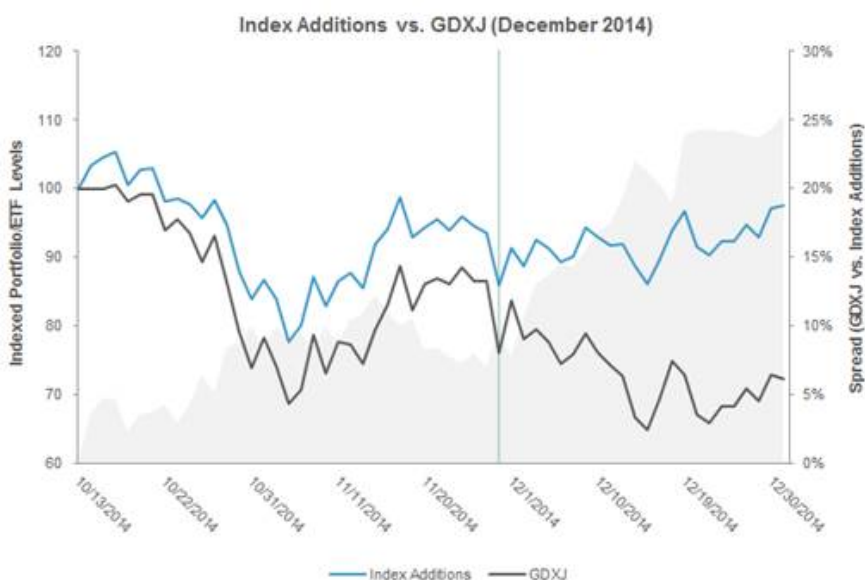
What are the Canadian stocks that are involved in this trade? There are currently 45 Canadian companies in our pro forma index. This is subject to change given we are still ~50 days away from the final determination date for the index review; however, we think it is important to highlight these names today given all will likely experience some form of pre-positioning starting at today's open.

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We think accounts should take notice of this list because there could be as much as USD 3.2B to trade in these names at the June 2017 quarterly review (assuming our forecast holds). We estimate accounts could buy USD 1.3B in the new Canadian additions and sell USD -1.8B for funding.

What to expect from the Benchmark Change? This is not the first benchmark change for the GDJX. Market Vector Index Solutions (previously known as Market Vector Indices) expanded the universe for the Junior Gold Miners Index after the ETF provider ran into similar problems in 2014. Specifically, Market Vector Indices allowed larger companies to qualify for the index by changing the requirements from needing 90%-98% (of the full market capitalization of the eligible universe) to needing 80%-98%. According to our analysis, the market capitalization range for new constituents effectively doubled to USD 95M – USD 995M (from USD 95M – USD 448M under the previous methodology). The buffer zones (for existing constituents) also expanded to include constituents that ranked between 75% and 80% (of the eligible universe) versus 80% and 90% under the previous methodology. **The previous methodology change was announced on October 13, 2014 and took effect at the December 2014 quarterly review.**



Overall, the 2014 index additions outperformed the GDJX by 9.8% between the date the methodology changes were announced and the determination date for the index review. The additions outperformed the GDJX by an additional 14.0% between the determination date and the effective date of the index review, bringing total outperformance to 23.8% from the announcement date of the methodology changes. Note, the 2014 additions had a 3.6% post-announcement pop, so accounts that cautiously waited for a methodology change could still wade into the trade post-announcement and benefit from the index flows.

Previous Research

NOTES ON THE MVGDJX REBALANCE + POTENTIAL METHODOLOGY CHANGES?

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Please see the attached note for full details on what drove the methodology change and how it can impact the index going forward.

Please feel free to give us a call to [provide feedback](#) or to discuss trading strategies for the index changes.

Thanks

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