The benefits of gold as a strategic asset for SMSF trustees

SMSF Investment 2020 Whitepaper

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Introduction: Why do people still invest in precious metals?

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Many astute investors allocate 5–10% of a diversified portfolio to gold.

Precious metals such as gold and silver have been valued as a store of wealth for generations.

Contemporary investment vehicles are today making this asset class more convenient than ever to hold within a diversified investment portfolio.

The range and availability of gold investment products is highly relevant to Self Managed Superannuation Fund (SMSF) trustees seeking to build and protect their wealth.

While listed equities, cash (including term deposits) and property comprise the majority of assets chosen by SMSF trustees, demand for precious metals, such as gold and silver, has also been growing significantly for more than a decade.

Indeed many astute investors are choosing to allocate 5–10% of their portfolio to gold. Those who have invested in the metal have been well rewarded, with the gold price rising above AUD 2,000 per troy ounce in 2019. This has helped generate returns of more than 9% per annum on gold over the past 15 years.

With a wide choice of investment products, The Perth Mint has been at the forefront of the growing demand for precious metals. Our unique government backed depository now holds more than AUD 5 billion in physical precious metals for approximately 40,000 clients including SMSF trustees, as well as central banks, sovereign wealth funds and institutional investors.

In this white paper we review:

- The five main benefits precious metals may offer SMSF trustees as they seek to build and protect wealth.
- Why we expect the trend towards precious metals to continue and perhaps even accelerate in coming years.
- The frequently asked questions SMSF trustees have about how to invest in precious metals.
- What to look for when investing in precious metals.

We also outline the investment solutions provided by The Perth Mint, with a focus on the products best suited to SMSF trustees. These products include our ASX-listed gold product (ticker code: PMGOLD) which can be bought and sold via a regular share trading account.

Reviewing 2019: Gold is back on the radar

The rise in the gold price beyond AUD 2,000 per troy ounce, combined with multiple interest rate cuts by the Reserve Bank of Australia (RBA) helped drive a surge in demand from Australian investors throughout 2019.

The rise in demand includes increased buying from self-managed super fund (SMSF) trustees, with flows into gold continuing to increase in the first month of 2020, as rising tensions between the United States and Iran, as well as fears over the spread of Coronavirus propelled the gold price above AUD 2,300 per troy ounce.

The strong run for gold dates back to the final quarter of 2018, when a sharp correction in equity markets helped reignite safe haven demand for the precious metal. Over the 15 months to the end of 2019 gold strongly outperformed the local equity market, climbing more than 31% in Australian dollar terms.

The outperformance of gold across this time period can be attributed to a range of factors including:

- A return to monetary easing by the United States Federal Reserve, with three interest rate cuts in the second half of 2019, as well as intervention in money markets which saw the Federal reserve's balance sheet expand back above USD 4.1 trillion by the end of last year.
- The significant decline in bond yields globally, with US 10-year government bonds yields declining by 29% for the year, ending 2019 at just 1.91%. Australian 10-year government bond yields ended the year at just 1.37%, a decline of just over 40%.
- The increase in the value of negative yielding debt, which at one point in 2019 topped USD 17 trillion, with more than a quarter of developed market sovereign debt trading with a negative yield
- Growing recession fears with the US yield curve inverting in 2019 as ongoing Brexit concerns and the turbulent US-China trade deal fuelled uncertainty.

Given this momentum, it is little surprise that gold performed as well as it did in 2019. Last year's increase represented the strongest annual rise in the gold price since 2010, as indicated in the chart on this page.

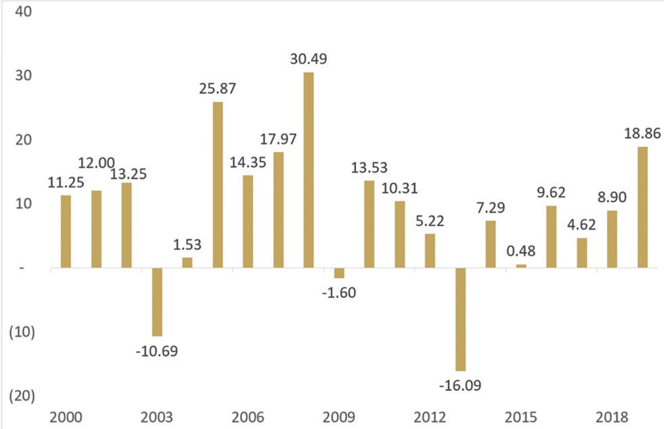
The case for gold was further boosted in 2019 by high profile investors speaking favourably about the yellow metal and the role it may play in a portfolio. This includes Bridgewater Associates Founder, Co-Chairman and Co-Chief Investment Officer Ray Dalio, who in July 2019 released a widely read report titled *Paradigm Shifts*, which warned that investors may continue to face low to negative returns in traditional safe haven assets like bonds and cash for years to come.

Should this occur, Dalio believes it will "lead investors to increasingly prefer alternative forms of money (eg. gold)." He considers, "It would be both risk-reducing and return enhancing to consider adding gold to one's portfolio" stating that gold is an "effective portfolio diversifier."

Blackrock also published a research piece titled *The monetary policy endgame*, which looked at the potential investment implications of the economic environment investors face today and the challenge it poses to investors. The research warned there is a risk that the worst assets to hold could be sovereign bonds with negative yields, closely followed by paper money at zero yield, in part because both have "a theoretically infinite supply."

The solution to this challenge, according to Blackrock, would be to "hold an asset that maintains its real value – an asset that cannot be printed." Gold is mentioned as one of the assets that meets this criteria.

Australian Dollar Gold Price returns by calendar year – 2000 to 2019



Source: The Perth Mint, Reuters

The factors that drove the rally in the gold price throughout 2019 also contributed to a notable uptick in investment demand, seen globally across:

- Global gold ETF holdings rose by over 400 tonnes for the year, with total holdings sitting near their all-time highs. More than 2,850 tonnes of gold were held across all gold ETFs at the end of 2019, with this metal valued at over USD 141 billion by the end of last year.
- A surge in gold demand by high net worth investors. A late 2019 report by Goldman Sachs stated that volumes of gold custodied in countries like Switzerland and the UK had grown by more than 1,200 tonnes across the past three years.
- Unprecedented levels of central bank gold buying. In 2018, central banks added 651.5 tonnes of gold to their reserves, with net purchases hitting their highest level since 1971. The record high level of purchases was essentially matched last year, with total buying from central banks totalling 650.3 tonnes in 2019.

The Perth Mint has seen first-hand this increase in gold demand, from investors buying and storing gold either through our exchange traded products and direct depository services, as well as purchasers of minted bars and coins, demand for which hit a three year high in December 2019.

This demand saw the total value of precious metals custodied for Perth Mint clients exceed AUD 4 billion by the end of last year.

In 2020 and beyond, we expect demand for gold to be sustained as low real interest rates and negative yielding debt, combined with expensive equity market valuations and ongoing geopolitical tension, all reinforce safe haven demand for the yellow metal.

Further support for gold can be expected if the USD were to weaken, or if inflationary concerns continue to build, with monetary policy likely to remain accommodative in developed markets for the foreseeable future.

SMSF Association

The SMSF Association is the peak body representing both the professionals who serve, and the direct trustees who form, the AUD 700 billion Self Managed Superannuation (SMSF) market.

The Perth Mint is proud to be a partner of the SMSF Association and provide a series of educational articles and webinars to promote the role precious metals can play in a balanced SMSF portfolio.

This educational content details the reasons investors are incorporating precious metals into their portfolio, with a particular focus on best practice for Australians investing their retirement savings via a SMSF.

To find out more, please contact The Perth Mint on (61 8) 9421 7250, visit perthmint.com/smsf or email us at Depository@perthmint.com.

Invest in Perth Mint Gold via the ASX

Perth Mint Gold
ASX code: **PMGOLD**

The price of PMGOLD has risen by more than 9% per annum over the last 15 years, tracking the increase in the AUD gold price.*

Why PMGOLD?

Traded on ASX
PMGOLD can be bought and sold like shares using a brokerage account.

Government guaranteed
PMGOLD is the only ASX-listed gold product which offers an explicit government guarantee on investor metal holdings.

Low cost
PMGOLD is less than half the cost of similar products, with the lowest management fee of all products offering gold.

Redeemable
PMGOLD allows investors to take physical delivery of metal in Australia, from as little as one troy ounce.

Transparent
Set at 1/100th of a troy ounce of gold, the price of PMGOLD is easy to compare with live Perth Mint spot prices.

Highly liquid
PMGOLD invests only in physical gold, one of the most liquid assets in the world.

*Performance figure calculated to end December 2019

Why are SMSF trustees investing in gold?

As the case for gold continues to strengthen, many SMSF trustees are opting to allocate 5 -10% of their portfolio to the metal. In this section of our white paper we cover five key reasons to include gold in a well-diversified portfolio.

1. Gold has delivered solid long-term returns

The price of gold has risen by an annual average of almost 9% since the early 1970s.

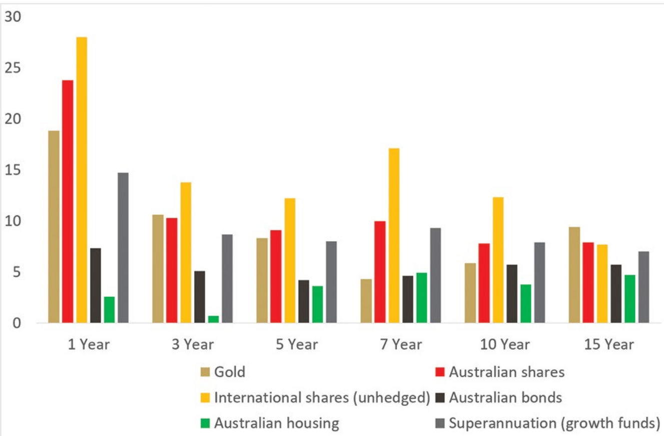
One of the principle reasons investors purchase gold is its historical ability to generate strong long-term returns.

From the beginning of this century the price of gold rose from under AUD 450 per ounce to more than AUD 2,150 per ounce at the end of 2019. This amounts to an annual average gain of more than 8.0% across the past 20 years.

Not only did the precious metal perform well in absolute terms during this time, but in relative terms as well. The returns on gold either matched, or in many cases exceeded, the returns generated by other asset classes.

This is illustrated in the chart and table on this page, which highlight the returns delivered by gold over multiple periods to the end of 2019, as well as the returns delivered by other asset classes including Australian shares and housing over the same timeframe.

Asset class returns (%) over multiple time periods to end 2019



Source: The Perth Mint, Reuters

With returns of 18.86%, 10.63% and 8.32% per annum over the last 1,3 and 5 years, gold has almost matched returns delivered by equity markets, and comfortably outperformed defensive assets like cash and bonds over this time period.

Over the past 10 years, gold returned almost 6% per annum, again bested only by share markets, with much of that share market outperformance owing to the recovery of equity markets from the more than 50% declines they suffered during the global financial crisis (GFC).

Over 15 years no equity, property, bond or diversified investment strategy has matched the rise in the gold price, with the yellow metal delivering returns of almost 9.5% per annum over this time period.

The strong performance of gold is not contained to the new millennium alone, with the yellow metal, despite its short-term volatility, delivering an annual average price growth of almost 9% since the start of the 1970s.

Asset class returns (%) over multiple time periods to end 2019

Asset Class	1 Year	3 Year	5 Year	7 Year	10 Year	15 Year
Gold	18.86	10.63	8.32	4.30	5.87	9.42
Australian shares	23.80	10.30	9.10	10.00	7.80	7.90
Cash	1.50	1.70	1.90	2.20	2.90	3.90
International shares (unhedged)	28.00	13.80	12.20	17.10	12.30	7.70
International shares (hedged)	27.40	11.80	9.20	12.00	10.20	7.20
International bonds (hedged)	7.20	4.10	4.20	4.80	6.30	6.50
Australian bonds	7.30	5.10	4.20	4.60	5.70	5.70
Australian housing	2.59	0.71	3.62	4.95	3.77	4.73
Superannuation (growth funds)	14.70	8.70	8.00	9.30	7.90	7.00

Source: Chant West, The Perth Mint, Australian Bureau of Statistics

2. Gold has been a strong performer when real cash rates are low

In low cash rate environments, no single easily accessible asset has delivered higher returns than gold.

In today's low cash rate environment one of the most topical issues for many investors is what to do with their cash holdings.

The income being earned on cash is at record lows, due to the Reserve Bank of Australia (RBA) cutting interest rates three times last year, with the local cash rate ending 2019 at an all-time low of just 0.75%.

Given the latest set of Australian inflation data to end 2019 suggests prices across the nation are rising at 1.80% per annum (price rises for essential items like healthcare and utilities have increased by 4.40% and 5.40% per annum over the last decade), much of the money sitting in cash is losing value in real terms.

The question for investors about what to do with the cash in their portfolio has only been exacerbated by the RBA's March 2020 decision to cut the cash rate to just 0.50%, with further monetary easing expected in the coming months.

In this environment gold is an asset investors should consider, with almost 50 years of market history telling us the precious metal has typically delivered strong returns when real rates have been low.

In Australia between 1971 and 2019 there have been 27 years when real cash rates were 2% or higher and 22 years when they were 2% or lower. The table below highlights the returns on cash and gold, in both nominal and real terms, during these periods.

Real cash. Rate environments and asset returns (%) - 1971 to 2019

Real Cash Rate Environment	Number of years	Years gold rose	Nominal cash return	Nominal gold return	Real cash return	Real gold return
Real cash rate above 2%	27	16	9.26	4.32	4.80	-0.14
Real cash rate below 2%	22	19	5.31	20.28	-0.82	14.14

Source: The Perth Mint, Australian Bureau of Statistics

The data tells us that when real cash rates are above 2%, gold recorded an average annual increase in nominal terms of 4.32%, with the yellow metal essentially flat in real terms.

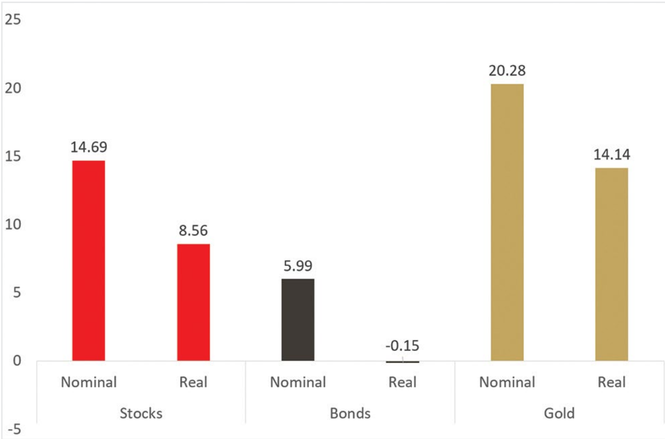
However, in years when the real cash rate was below 2%, the price of gold rose by an average of more than 20% in nominal terms and by over 14% in real terms, with a calendar year increase seen in 19 of those 22 years.

This information tells us that the increase in the gold price of just over 18% in 2019 was entirely in line with historical patterns, essentially matching the average annual return the yellow metal has delivered in low to negative real cash rate environments.

Gold has not only performed strongly in absolute terms when real cash rates have been low, but on a relative basis as well, outperforming both stocks and bonds during the years when real cash rates were below 2%.

This can be seen in the chart below, which plots the nominal and real returns for Australian stocks, bonds and gold during years when real cash rates were below 2%.

Australian asset class returns when real cash rates were below 2% - 1971 to 2019



Source: The Perth Mint, Australian Bureau of Statistics

Two key drivers help explain why gold has delivered such strong absolute and market leading relative returns in low real rate environments.

- Low or even negative real cash rates are typically only implemented as a form of monetary stimulus when the economy is weak or softening. In such environments it's natural that investors adopt a more defensive approach by seeking out safe haven assets such as gold.
- If the real rates one can earn from cash or short-term bonds are low, or even negative, then the opportunity cost of investing in gold is significantly reduced or completely eliminated.

These factors should be front of mind for investors trying to protect and build wealth today, as 10 to 15 year Australian government bonds currently yield less than 1.25% (as at end January 2020).

These yields suggest that the period of low to negative real returns on cash and cash-like investments such as term deposits, which gold has historically thrived in, may well continue for another decade or more.

3. Gold has been an effective hedge against equity market falls

For Australian investors, gold has historically been the highest performing single asset when equity markets have fallen.

Apart from the strong long-term returns gold has generated in its own right, another reason many investors include a permanent allocation to the metal in their portfolio is its historical ability to balance out overall portfolio returns.

Gold has helped provide balance because its returns have been typically uncorrelated to those generated by financial assets in general. More importantly, it has been negatively correlated to the equity market when that market has fallen, providing diversification when it has been needed most.

A look back at the performance of gold and the local equity market in late 2018 demonstrates this point.

In Q4 2018, the ASX 200 suffered an almost 10% decline as investor confidence was rattled by fears of a global economic slowdown and indications that the US Federal Reserve would further tighten monetary policy in the world's largest economy.

Over the same period, the price of gold in Australian dollars rallied more than 10%, helping to protect the portfolios of investors with an allocation to the precious metal.

The performance of gold during this time was not an anomaly.

Instead it was a continuation of a trend that has been in place for more than 40 years, with gold typically serving as an excellent hedge against falling equity markets. Historical studies highlight the fact that gold has typically outperformed all other single asset classes in environments where stock markets have fallen fastest.

For evidence of this consider the table below, which looks at the performance of various asset classes and investment strategies in the quarters that global stock markets suffered their largest losses.

Global asset class returns when global equities suffer their largest quarterly falls

Asset Class	Global equities	Global fixed income	Hedge funds	Global 60/40 fund	Gold (USD)
Average of 10 worst quarters	-19.10	3.90	5.90	-10.30	4.20

Source: The Perth Mint

The AQR report from which the above table is drawn examined the worst 10 calendar quarters for global equity market returns between 1972 and 2014. As the table makes clear, global equity markets fell by almost 20% on average during these periods. Hedge funds also performed poorly, as did a 60/40 (60% equities, 40% fixed income securities such as bonds) portfolio.

The table above also makes it clear that gold was the highest performing single asset class when equity markets fell fastest, delivering returns averaging 4.20% during those quarters.

The above findings, which look at global equity markets, are just as applicable to Australian investors.

The table below highlights the same calendar quarters that global equities suffered their largest falls. However instead of looking at global markets, it shows the average returns for Australian equities, Australian cash, Australian bonds and gold priced in Australian dollars.

Australian asset class returns when global equities suffer their largest quarterly falls

Asset Class	Equities	Cash	Bonds	Gold (AUD)
Average of 10 worst quarters	-12.17	1.72	5.94	9.07

Source: The Perth Mint, Australian Bureau of Statistics

There are two key insights that can be drawn from the table above.

- The first and most important is that for Australian investors including SMSF trustees, gold has been by a considerable margin the highest performing single asset class when equity markets suffer serious declines in value.
- The second is the degree of correlation that exists between equity markets across the globe. In all 10 quarters referenced that global equities fell, Australian shares also fell significantly.

As a result, whilst there is nothing wrong with incorporating overseas equities into a portfolio, they will not necessarily provide true diversification because global equity markets and the Australian equity market tend to move in the same direction concurrently.

Gold, on the other hand, has provided robust portfolio diversification because it is uncorrelated to equities and typically performs best when equity markets are weakest.

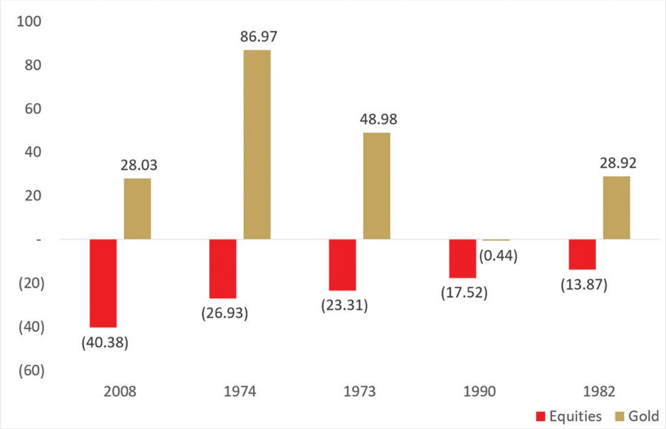
This can be seen in even more detail in the chart below which shows returns on the equity market (red columns) and gold (gold columns), during the five worst calendar years for Australian equity markets between 1971 and 2019.

The chart below, which uses market data from 1971 to 2019 inclusive, helps illustrate this point. It shows the average return for equities and for gold in the months, quarters and years when the equity market has risen, as well as when the equity market has fallen.

For example, the chart is telling us that:

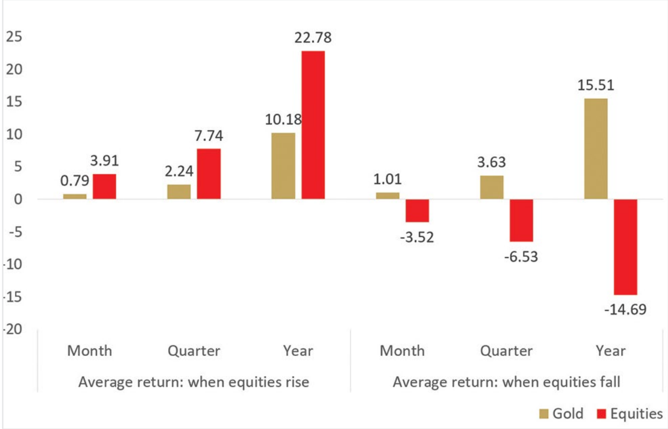
- The average gain for equities in the months when equities rose was +3.91% and in those same months equities rose, the average return on gold was +0.79%.
- The average loss on equities in the quarters when equities fell was -6.53% and in those same quarters when equities fell, the average return on gold was +3.63%.

Gold and equities annual returns (%) in five worst calendar years for equities – 1971 to 2019



Source: The Perth Mint

Average gold and equity returns when equities fall and when equities rise – 1971 to 2019



Source: The Perth Mint

The chart above shows that with the exception of 1990, when it was basically flat, gold delivered exceptionally strong gains in the years when equity markets suffered their largest falls, with an average annual increase across these five calendar years of almost 40%.

What about when equities rise?

Given gold has historically performed well when equity markets have fallen, it should be no surprise that its performance hasn't been as strong in environments when equity markets have rallied.

This is because, in environments where equity markets are rising, investors are less likely to seek out safe haven assets. However, crucially, gold has still on average generated positive returns in rising equity markets.

The chart reinforces the point that during periods when equity markets have rallied, gold has tended to rise too. When equities have declined, gold has on average delivered very strong returns, which is why it has been so effective at helping to manage overall portfolio risk.

This is one of the main reasons gold has become known as a safe haven asset and why it continues to be held by many investors as part of a diversified portfolio.

Gold's defensive qualities are particularly relevant given the environment SMSF trustees find themselves in today, with historically low and in many cases negative real yields on traditional defensive asset classes, like cash and government bonds, which we covered in the previous section of this white paper.

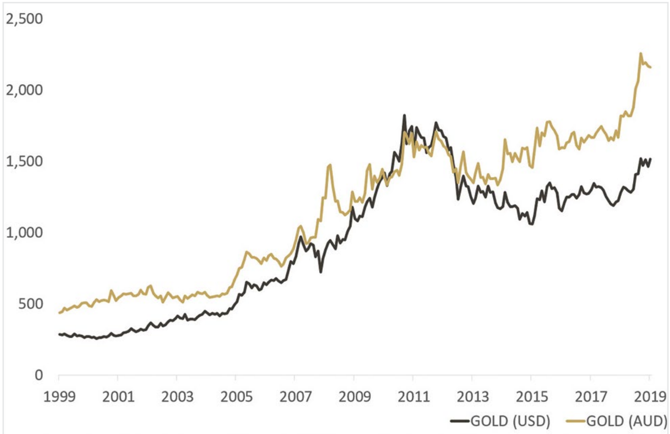
Those assets are unlikely to provide the same protective qualities that they did in the past, reinforcing the need for astute investors to look for alternative assets to protect and grow wealth.

Combined, these factors present compelling reasons to look at investing in gold.

4. Gold offers foreign currency diversification

A decline in the value of the AUD can help Australian gold investors build their wealth.

Price of gold (per troy ounce) – USD and AUD 2000 to 2019



Source: Reuters, The Perth Mint

As gold is priced in US dollars (USD), it provides a form of foreign currency exposure, or diversification, for Australian investors.

Though not always the case, the foreign currency element can have two main benefits for Australian investors:

1. During 'risk off' environments, when traditional assets such as equities fall fastest, the AUD also tends to decline, magnifying the gains and diversification potential gold can offer.

   What happened during the GFC clearly illustrates this. In 2008, the Australian equity market fell by more than 40%, while the price of gold in USD rose by just over 4%.

   However AUD gold investors not only benefitted from that 4% rise in the USD gold price, they also gained from the drop in the value of the AUD, which fell by almost 20% in 2008. Consequently the return Australian investors generated on gold holdings was more than 28%, helping them protect their overall portfolios and wealth.

2. Movements in the AUDUSD FX rate mean the return profile for gold priced in AUD is sometimes smoother and less volatile than returns for gold priced in USD.

The following chart helps illustrate this by highlighting the price of one ounce of gold in both USD (black line) and AUD (gold line) from the beginning of 2000 to the end of 2019.

USD denominated gold

The black line shows how the price of gold in USD rose from under USD 300 per ounce at the end of 1999 to almost USD 1,800 per ounce by late 2011. It then fell towards USD 1,050 per ounce by end 2015, a decline of almost 40%.

By the end of 2019 it had climbed back above USD 1,500 per ounce, still approximately USD 300 per ounce below the highs seen in 2011.

AUD denominated gold

The AUD price of gold has had a smoother run, rising from just below AUD 450 per ounce at the end of 1999 towards AUD 1,700 per ounce by December 2011. Like USD gold, the price for local investors also fell for a couple of years after that, but it bottomed out at approximately AUD 1,300 per ounce in late 2014.

The decline of just over 20%, was barely half that compared with the fall in the USD gold price.

By the end of 2019 it had climbed above AUD 2,000 per ounce, with the price of gold having recovered all losses seen between 2011 and 2014, hitting a new all-time high. This is something that the price of gold in USD has yet to do.

The key takeaway for SMSF trustees looking to balance their portfolio and manage risk is that gold can offer a simple way of accessing foreign currency exposure, which is a valuable diversification attribute for an investment to offer.

5. Gold is simple and easily accessible

"Simplicity is the ultimate sophistication."
– Leonardo Da Vinci

A final driver of demand for gold is its simplicity and accessibility as an investment.

Gold in particular is:

- Easy to invest in.
- Accessible to all investors.
- Low cost and liquid
- Subject to minimal execution risk.

Each of these features, and why they are virtues from an investment perspective, are explored in more detail below.

a. Easy to invest in

Gold is incredibly easy to purchase, store and sell.

One of the most popular ways to access gold today is via listed products, including Perth Mint Gold (ASX ticker code PMGOLD). As highlighted earlier in this white paper, PMGOLD trades like regular shares on the ASX and can be bought and sold via a stockbroker or standard share trading account.

Gold can also be bought direct through The Perth Mint via our depository accounts (which allow for trading online, over the phone or via email). Depository holdings are backed by physical gold, the safekeeping of which is guaranteed by the Government of Western Australia.

The Perth Mint provides regular valuations of these holdings, including at the end of the financial year, allowing SMSF trustees to meet their reporting obligations.

When it comes to selling, this can also be done over the phone, or online 24 hours a day, allowing investors to purchase and liquidate their holdings when it suits their needs.

There are no lock up periods, no opaque fee structures, no derivatives or underlying instruments when it comes to gold itself.

b. Accessible to all investors

Anyone can be a gold investor, even if they are just starting out with a modest pool of capital.

Australian investors can buy as little as AUD 50, which is the minimum trade size for The Perth Mint's Depository Online solutions. Our ASX-listed gold product, PMGOLD, currently trades at approximately AUD 22 per unit, in line with the current gold price (mid-January 2020) of AUD 2,200 per ounce, and will typically be subject to the same minimum investment amounts as regular shares.

To further illustrate how accessible gold is, it is worth noting that the largest consumer markets for physical gold in the world today are China and India (combined they account for approximately 60% of gold jewellery, bar and coin demand), where per capita incomes are a fraction of those in the developed world, including Australia.

This highlights how accessible gold is as an investment and that demand for the precious metal is truly global.

At the other end of the spectrum, central banks across the globe collectively own more than 34,000 tonnes of physical gold, with a current market value in excess of AUD 2.4 trillion.

The size of these central bank gold holdings (which account for almost 20% of total global gold ownership) help highlight the vast size of the gold market itself. At current prices, the gold market is valued at over AUD 13 trillion, making it larger than the vast majority of equity and fixed income markets.

c. Low cost and liquid

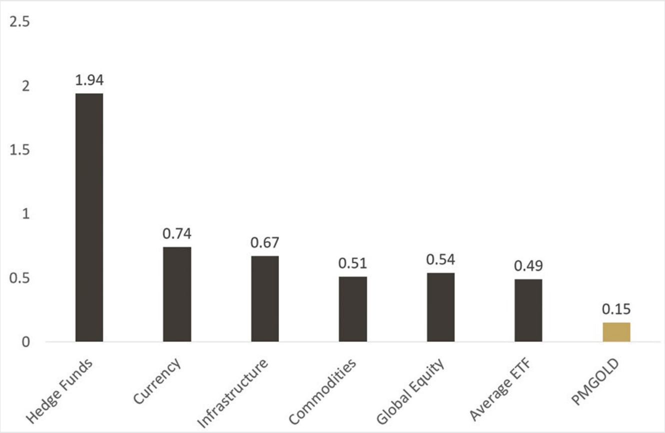
Daily turnover in the gold market typically averages in excess of one hundred billion dollars, making it one of the most liquid asset classes on the planet. This is important for investors as it means that it is very easy to buy and sell gold quickly, without impacting the price.

This liquidity, and the size of the market mean that gold can be a very cost effective asset class for investors, including SMSF trustees, to include in their portfolios.

The following chart illustrates this, highlighting the average management expense ratios (MER) for a range of alternative assets, from hedge funds, which are popular with institutional investors, through to currency, infrastructure, commodity and global equity ETFs. The MER is the fee charged by the product provider, which impacts the return the end investor earns from their investment.

The chart also shows the MER for PMGOLD, The Perth Mint's ASX listed gold product.

Management Expense Ratios (%) for various investment products



Source: The Perth Mint, ASX Investment Products December 2019 update, Ernst and Young 2018 Global Alternative Fund Survey

The chart makes it clear that gold is at the very low end of the spectrum from a cost perspective, which is beneficial to the end investor who will get to keep more of the return generated by gold for themselves.

d. Subject to minimal execution risk

The Perth Mint defines execution risk as the risk that the performance an investor generates from their investment within a certain asset class is different to the performance of the asset class itself, over the given time period.

As gold is an entirely homogenous asset class, every investor who owns gold over a given time period will generate the same return.

A comparison with other asset classes helps demonstrate why this makes gold a simpler investment with less execution risk than other mainstream asset classes.

Consider the table at the bottom of this page, which comes from the June 2019 SPIVA (Indexed Versus Active) Australia Scorecard, produced by S&P Dow Jones Indices. The table plots, over multiple time periods to end June 2019 the number of funds that were outperformed by their respective benchmarks across five popular asset classes: Australian Equities, Australian Mid and Small-Cap Equities, International Equities, Australian Bonds, and Australian Real Estate Investment Trusts (A-REITS).

Almost without exception, well over 50% of fund managers underperformed their respective indexes over all time periods to the end of June 2019.

So whilst market data tells us that in the 15 years to end June 2019, Australian shares returned 8.90% per annum, many investors in Australian equity managed funds would have seen a lower return than this, with over 80% of funds underperforming the S&P ASX 200 benchmark.

The table makes it clear that even when professional investors are managing money, there are no guarantees returns will match the index for that particular asset class.

This illustrates an important point about these asset classes: Investors not only have to decide that they want to invest in the asset class in the first place, but then, be it via luck or skill (or a combination of both), they also have to hope that the stocks, bonds or properties that they invest in, or that fund managers invest in on their behalf, perform as well as the market itself.

Get it right and they may outperform, but there is always a risk they end up with results that are worse than the "market" or the asset class they are investing in as a whole.

Gold investors need not worry about these additional complexities or risk factors, with this simplicity helping drive demand over the past decade.

Percentage of Funds Outperformed by the Index (Based on Absolute Return)

Fund Category	Comparison Index	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	15 Year (%)
Australian Equity General	S&P / ASX 200	93.23	83.33	80.63	82.56	84.05
Australian Equity Mid and Small Cap	S&P / ASX Mid-Small	60.47	79.83	75.24	46.73	51.52
International Equity General	S&P Developed Ex-Australia LargeMidCap	72.91	74.00	82.82	92.08	91.95
Australian Bonds	S&P / ASX Australian Fixed Interest 0+ Index	84.62	77.59	90.57	72.41	N/A
Australian Equity A-REIT	S&P / ASX 200 A-REIT	71.83	68.06	80.28	81.82	81.82

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2019. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

What about gold's volatility?

Gold can help lower overall portfolio volatility. The data proves this conclusively.

Despite the strong long-term returns gold has generated, and its role as a trusted safe haven, the fact that gold may be volatile at times can worry some investors. However historical analysis of market returns demonstrates that gold can actually lower overall portfolio volatility.

The following table helps put the volatility of gold in its appropriate context and explains why it should not stop the metal from playing an important role in a well-diversified portfolio, alongside equities, cash and other more traditional assets.

The table shows the best and worst month, calendar quarter and calendar year return for gold, and for equities between 1971 and 2019, as well the annualised volatility of monthly returns for both asset classes. It also highlights the same statistics for a hypothetical 50% gold/50% equities portfolio.

Gold, equities, blended portfolio: Best and worst month, quarter and year, and annualised volatility - 1971 to 2019

Investment	Worst month	Best month	Worst quarter	Best quarter	Worst year	Best year	Volatility
Gold	-20.26	29.36	-22.67	53.87	-28.94	142.75	20.45
Equities	-42.13	18.83	-40.66	28.02	-40.38	66.80	17.28
50/50 Gold and Equities Blend	-17.29	22.40	-18.78	34.77	-20.77	90.16	13.56

Source: The Perth Mint

A few things stand out looking at the above table:

- The worst losses over a month (-20.26%), quarter (-22.67%) and year (-28.94%) for gold have been dwarfed by equity market losses in its worst month (-42.13%), quarter (-40.66%) and year (-40.38%).
- The best gains over a month (+29.36%), quarter (+53.87%) and year (+142.75%) for gold were much better than the corresponding best month (+18.83%), quarter (+28.02%) and year (+66.80%) for the equity market.
- The volatility of gold as a stand-alone asset is only slightly higher than the volatility of the equity market.

The first two points communicate an important finding for investors, which is that gold's most powerful moves tend to be to the upside. The equity market, on the other hand, experiences a higher proportion of its most powerful moves to the downside.

Indeed, of the 10 largest monthly moves for gold in the past 49 years, only three saw the metal fall in value. By contrast for the equity market, six of the 10 largest monthly moves were to the downside. No doubt this is one of the reasons there is a popular saying in financial markets that equities "go up the stairs but down the elevator".

Combining gold and equities

The results from the 50/50 blended portfolio also carry important insights for investors.

They highlight clearly that blending gold and equities together can significantly reduce the risk to which equity market investors are exposed, with annualised volatility dropping from 17.28% for equities alone to just 13.56% in the 50/50 blended portfolio example.

Importantly, gold also helped to significantly reduce worst-case losses. The biggest monthly, quarterly and annual declines for the 50/50 blend of gold and equities were -17.29%, -18.78% and -20.77% respectively. These declines are substantially less severe than the drawdowns pure equity market investors have had to endure since the beginning of the 1970s.

This is because in those months when equities fell fastest, the price of gold typically rose meaningfully, mitigating losses and reducing overall volatility at the portfolio level.

Summary of attributes

Gold's diversification benefits and ability to reduce risk at the portfolio level are fuelling demand from astute investors worldwide.

The topics and data discussed in this white paper offer insights into why many investors seeking to protect and build their wealth permanently allocate up to 10% of their portfolios to gold, with even higher allocations in certain investment environments.

Over the long term the precious metal has offered several key benefits to investors:

- **Strong long-term returns:** The gold price has delivered long-term returns of almost 9% per annum since the early 1970s.
- **Strong outperformance in low real interest rate environments:** Gold prices have risen in 19 of the 22 years when real Australian cash rates have been 2% or lower, as they are today. The average gain during those years has been more than 20%.
- **Demonstrated hedge against equity market falls:** Gold has historically been the highest performing single asset class in environments where equity markets suffer their biggest corrections.
- **Currency diversification:** Gold offers a de facto foreign currency exposure in an Australian investor's portfolio and it has historically benefited from any decline in the value of the AUD.
- **Liquidity and simplicity:** Gold is highly liquid and simple to incorporate into a portfolio. It is accessible to all investors and can be purchased in amounts as little as AUD 50.

While other asset classes offer some of these benefits, gold is arguably the only asset that offers all the above attributes in one easily accessible investment, with its diversification benefits and ability to reduce risk at the portfolio level fuelling demand from astute investors worldwide.

Given the economic and financial market environment investors face today, we expect that gold will continue to attract attention from investors around the globe.

What about silver?

Contrarian investors are taking note of the almost record low price of silver relative to gold.

While gold attracts broad attention in the markets and media, silver is another popular investment for those who consider precious metals.

Gold is seen by markets as a purer safe haven monetary commodity, however silver has a much higher industrial component to its demand and usage.

This can be seen in the table below, which highlights global physical silver demand (in millions of ounces) broken down between jewellery, coins and bars, silverware and industrial fabrication. Note that data for end 2019 was not yet available at the time this report was published.

Global physical silver demand - 2009 to 2018

Physical Silver Demand	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Jewellery	176.90	190.00	191.50	186.70	219.70	227.30	223.30	202.70	204.50	212.50
Coins and bars	79.60	174.10	211.70	161.20	240.70	233.60	293.60	208.70	150.40	181.20
Silverware	53.20	51.90	47.50	43.80	59.30	61.20	63.20	52.40	57.60	61.10
Industrial fabrication	528.20	633.80	653.00	600.10	604.60	596.30	582.60	566.40	585.80	578.60
Total physical demand	837.80	1049.80	1103.70	991.80	1124.30	1118.40	1162.80	1030.20	998.40	1033.60

Source: The Silver Institute, World Silver Survey 2019

Coin and bar demand, at just 181.2 million ounces in 2018, accounted for less than 20% of total physical silver demand. Even if one were to add jewellery into the mix (bearing in mind both gold and silver jewellery demand are partially investment driven, particularly in emerging markets), total demand from these sources combined would still be below 400 million ounces. That equates to less than 40% of total demand.

By contrast, demand for gold jewellery, and for bars and coins in investment form, generally represents 85–90% of total physical demand in any given year.

The role silver plays as an industrial metal is one of the reasons it is typically more volatile than gold and subject to greater increases and declines in value at times.

But for investors who can withstand that volatility, such as those with a longer-term outlook, there are times when silver offers significant return potential.

One reason investors are looking at silver today is that, relative to gold on a historical basis, it's very affordable. To help visualise this, it's worth looking at the gold to silver (GSR) ratio, which measures how many ounces of silver are required to buy one ounce of gold.

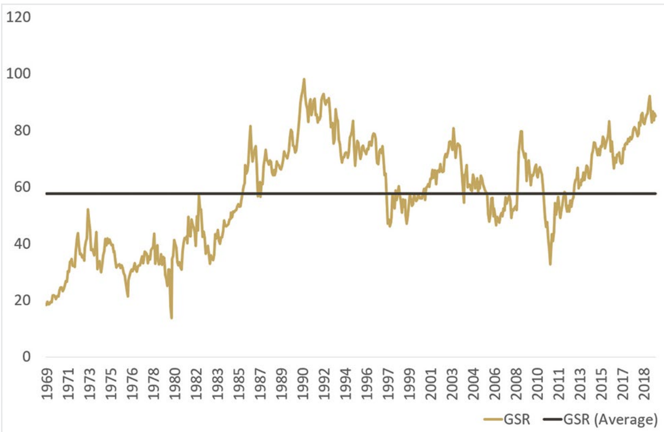
A GSR of over 80:1, which is where it sits at time of this paper's publication (February 2020), is very high by historical standards, with the price of silver only ever being cheaper relative to the price of gold once in the past 48 years.

That was at the end of February 1991 when silver was trading at less than USD 4 per ounce and gold was just under USD 400 per ounce. In the one, three and five years that followed, silver rallied by 11%, 44% and 49% respectively, with the GSR ratio falling from almost 100:1 to just 73:1 by 1996.

Since the turn of the century, there have been four time periods when the GSR has been above or near 80:1, including today, with the GSR sitting at 85:1 at the end of 2019.

This can all be seen on the chart below, which highlights how the GSR has moved from the beginning of the 1970s to the end of 2019. Note that the gold line is the GSR itself, while the grey line is the average over the entire period.

GSR ratio 1969 to 2019



Source: Reuters, Market Index, The Perth Mint

The returns for silver in the one, three and five years that followed on from periods where the GSR reached or exceeded 80:1 since 1999 are highlighted in the table below.

Silver returns when the GSR has been above 80:1

Date	GSR at Time	Silver Returns		
		1 year	3 year	5 year
May-03	81	34.73	187.39	272.35
Nov-08	80	79.79	220.41	94.82
Feb-16	83	23.02	4.03	n/a

Source: Reuters, Market Index, The Perth Mint

The returns that silver has generated in the years that have followed on from GSR readings of 80 or higher have typically been very impressive, particularly the returns following on from May 2003, with silver prices rallying by 187% and 272% in the three and five years that followed.

Given this market history, it's understandable why many investors are looking to allocate a portion of their portfolio to silver in 2020.

What to look for when investing in precious metals

Two key questions to consider are whether the organisation makes its financial information publicly available and whether this information is externally audited.

Having trust in a counterparty is a vital part of investing in any asset class. It is particularly relevant when investing in precious metals such as gold and silver given they are physical assets that need to be stored securely.

Given the requirement to receive regular valuations and reporting, many SMSF trustees buy a listed product backed by gold (such as PMGOLD). Another popular option is for investors to store their gold and silver with the organisation from which they bought it.

Therefore the enterprise an SMSF trustee chooses typically plays two roles, effectively acting as both a broker and as a custodian to secure their investment.

When assessing how safe their precious metals investment will be, SMSF trustees should consider the following factors.

1. History and reputation

Questions on history and reputation to consider may include:

- When was the organisation founded?
- Who/what is (are) the owner(s)?
- Are there any guarantees safeguarding investor holdings?
- Is the organisation a member of industry bodies such as the London Bullion Market Association (LBMA)?
- Does it manufacture its own gold and silver bars?
- Are the investments backed by physical gold/silver?

2. Published and audited statements

Two key questions to consider are whether the organisation makes its financial information publicly available and whether this information is externally audited. Examples would include the annual report, and physical gold and silver bar lists where relevant.

3. Liquidity and balance sheet strength

By accessing externally audited financial information, trustees can gain a better understanding of the balance sheet strength of the organisation they are considering. While the market for gold itself is highly liquid, this will be of little comfort if the organisation lacks the balance sheet to make a market when trustees are looking to trade.

4. Transparency and reporting

Transparency is a final consideration. Does the organisation quote a gold price online? Does it offer a clear explanation about the fees and charges that apply? Reporting practices are also important because it is crucial that SMSF trustees receive timely and accurate trade confirmations, as well as portfolio valuations.

5. Are the precious metal holdings guaranteed?

A guarantee can provide further peace of mind regarding the safety of an investment.

About The Perth Mint

More than AUD 5 billion in customer metal safeguarded.

The Perth Mint offers an ever-expanding range of innovative investment products that combine the enduring appeal of precious metals with the convenience of contemporary investment vehicles. With innovative solutions sought after by clients from across the globe, we:

- Secure more than AUD 5 billion in physical metal for approximately 40,000 clients, ranging from individual investors to SMSF trustees, sovereign wealth funds and central banks.
- Manufacture physical precious metal products worth more than AUD 18 billion annually.
- Refine more than 10% of annual global gold production, including in excess of 90% of Australia's gold production.
- Distribute minted bars and coins to over 130 countries annually.

Unique guarantee and structure

The *Gold Corporation Act 1987* states that the Government of Western Australia, our sole owner, guarantees all our operations, undertakings and obligations. This provides clients with peace of mind and certainty gained from the knowledge that a highly rated sovereign entity is fully underwriting all our offerings.

Another key distinguishing feature The Perth Mint offers is integration.

The diagram below outlines our structure and the breadth of operations. Our integration gives investors the assurance that the metal they buy is refined and stored at our Perth facilities, thereby minimising counterparty risk.

Our diverse operations are bound by strict prudential management guidelines and policies, to ensure compliance with legislative and regulatory requirements, and Australian codes of practice.

With an annual turnover of more than AUD 18 billion, our markets include Australia, China, India, the Middle East, North America and Europe.

The Perth Mint's unique vertically integrated structure

Services

Refinery
Treasury
Marketing
Distribution

Investment Solutions

Physical products
(Bullion bars and coins, cast bars)
Depository
Exchange traded products
GoldPass® digital app

Collectables

Numismatic coins
limited edition collectables

Attractions

Multi-award winning visitor experience
Perth's premier jewellery destination

The diagram above outlines the breadth of support we provide to the Australian precious metals industry. Our structure allows us to offer our clients all-encompassing services, while creating value-added products accessible to an expanding range of markets throughout the world.

Frequently asked questions

All metal holdings stored on behalf of our clients are guaranteed by our owner, the Government of Western Australia, under the *Gold Corporation Act 1987*.

1. **Which precious metals product should I invest in?**

   The Perth Mint offers several investment solutions suitable for SMSF trustees.

   Most trustees tend to use one of two options. The first is our ASX-listed gold product (ticker code PMGOLD) which you can buy (and sell) through your stockbroker or standard share trading account. Given many SMSF trustees own direct shares, this is likely to be the easiest way for most trustees to add Perth Mint Gold to their portfolio.

   The second option is our depository online account which gives trustees 24/7 access to buy and sell physical gold, silver and platinum. All the precious metal is safeguarded within our central bank grade vaults.

2. **Do I have to pay for storage?**

   No. If you invest in unallocated gold, silver or platinum there is no ongoing storage fee charged on your holdings. Unallocated holdings are the most cost-effective and popular form of investment among our range of clients and are still covered by the same government guarantee.

3. **Is my bullion safe with The Perth Mint?**

   Yes. All metal holdings stored on behalf of our clients are guaranteed by our owner, the Government of Western Australia, under the *Gold Corporation Act 1987*.

4. **Is bullion stored with The Perth Mint insured?**

   Yes, in addition to the government guarantee, precious metals stored on clients' behalf are comprehensively insured through underwriters at Lloyd's of London.

5. **Is bullion stored with The Perth Mint independently audited?**

   Yes. We are audited annually by the State Auditor General to ensure compliance with the *Financial Management Act 2006* and the *Gold Corporation Act 1987*. It should be noted that the **Auditor General** is appointed by the **Governor** of Western Australia and reports directly to **Parliament**, thus operating independently of the Government.

   In addition, the Auditor General of Western Australia appoints a major accounting firm to undertake the external audit on their behalf. This is in contrast to many corporations which appoint their own external auditor. With the external auditor appointment out of the hands of management, and with the external auditor's work subject to further review by the Auditor General, we operate under a far more rigorous audit regime than that of public and private companies.

6. **Does The Perth Mint publish its financials?**

   Yes, our annual report is available to the public and can be downloaded from our website at this link: **www.perthmint.com/annualreport**

7. **How much does it cost to invest in gold?**

We offer several options that make gold investment affordable and accessible. For SMSF trustees the most popular products are Perth Mint Gold (ASX:PMGOLD) and our depository online products.

PMGOLD has a management fee of only 0.15% per annum, the lowest management fee of all products offering gold price exposure via the ASX.

For our depository online products, transaction fees are based on the size of the trade.

As an example, a purchase or sale of gold between AUD 10,000 and AUD 100,000 attracts a transaction fee of 0.95%. A full list of our transaction storage fees for our depository products is published online at this link: **www.perthmint.com/pricing**

8. **How easy is it to sell my investment and how long does payment take?**

Selling metal is as easy as buying it.

If you own PMGOLD via the ASX, then it can be sold via your stockbroker in the same way you bought it, trading whenever the stock market is open.

If you have a depository online account with The Perth Mint, you can sell your metal back to us via our website, 24 hours a day, seven days a week. We will then credit the money from the sale to your account with us and transfer these funds to your nominated bank account upon your request.

Payments to your designated bank account will typically occur within one to two business days of your redemption request.

9. **Can The Perth Mint work with my financial advisor or my accountant?**

Yes. Trustees are welcome to appoint their adviser and/or accountant as operating authorities on their accounts. We can arrange ongoing reporting with appointed advisers, streamlining the process for trustees.

10. **Can I take delivery of the gold backing my investment?**

Yes you can take delivery of the gold backing your investment.

However, storing bullion at home carries significant risk for any investor including SMSF trustees. It is also more difficult to prove ongoing ownership and value (which is a requirement for an SMSF). Physical precious metals stored at home are also not as liquid. Most importantly, investors who take their bullion home are no longer protected by the government guarantee offered via The Perth Mint on metal holdings.

For these reasons, we encourage trustees to invest in our depository solutions. These offer the government guarantee on the safekeeping of metal held on clients' behalf, access to 24-hour liquidity, as well as regular valuations and reporting.

The Perth Mint's investment solutions

The Perth Mint offers several investment solutions suitable for SMSF trustees.

ASX-LISTED PRODUCT
PERTH MINT GOLD (PMGOLD)

PMGOLD is a convenient and cost-effective way to add gold to a SMSF.

Designed to track the international price of gold in Australian dollars, it enables investment in gold via the ASX with a very competitive management fee.

PMGOLD can be purchased by investors via their stockbroker or through a standard share trading account, alongside their equities and other listed product investments.

PMGOLD is set at 1/100th of a troy ounce of physical gold. Therefore, if gold is trading at AUD 2,200 per troy ounce, the price of PMGOLD on the ASX should be close to AUD 22.

Perth Mint Gold is unique in that it is:

- **Government guaranteed:** PMGOLD is the only ASX-listed gold product which offers an explicit government guarantee on investor metal holdings. This is offered under section 22 of the *Gold Corporation Act 1987*, an Act of the Western Australian Parliament.
- **Low cost:** At 0.15% per annum PMGOLD is less than half the cost of similar products, with the lowest management fee of all products offering gold price exposure via the ASX.
- **Physically redeemable:** Unlike many gold exchange traded products, PMGOLD allows investors to take physical delivery of metal in Australia, from as little as one troy ounce.
- **Highly liquid:** PMGOLD invests only in physical gold, one of the most liquid assets in the world.

Find out more at:
www.perthmint.com/pmgold

ONLINE TRADING PORTAL
DEPOSITORY ONLINE

The Perth Mint Depository provides a 24/7 online trading portal with live pricing for investors to buy, store and sell gold, silver and platinum.

For SMSF trustees who prefer to invest directly with us, Depository Online is our most popular investment option, offering:

- 24/7 online accessibility
- A savings plan to allow for regular investment into precious metal
- Phone support
- Unallocated gold, silver and platinum, with no storage fee (in addition to other options)
- EOFY valuations
- Transparent pricing

Opening a depository online account for an SMSF account can be done via The Perth Mint website at:
www.perthmint.com/openaccount

PHONE
DEPOSITORY PROGRAM

Modelled on a traditional service with personalised contact, the Depository Program is suitable for SMSF trustees who would prefer to trade by telephone or email.

Features of our depository program include:

- Access to our experienced in-house traders
- Cost savings on accounts in excess of AUD 50,000
- Unallocated gold, silver and platinum, with no storage fees
- EOFY valuations
- Transparent pricing

You can find out more about our Depository Program Account via The Perth Mint website at:
www.perthmint.com/depositoryprogram

GOLD ETF LISTED ON THE NYSE

Perth Mint Physical Gold Exchange Traded Fund (NYSE:AAAU)

Trading on the New York Stock Exchange (NYSE), AAAU is designed to track the international price of gold in USD.

AAAU is unique in the marketplace as it is the first gold ETF to have the precious metal held on behalf of investors guaranteed by a sovereign entity.

It is available to Australian investors through an international share trading account.

SMSF trustees who wish to find out more information about AAAU can do so at the following website: **aaauetf.com**

SMARTPHONE APP

GoldPass®

GoldPass® is a full-service investment app that allows users to buy, store, sell and transfer physical gold via a 24/7 trading platform on their smartphone.

Investor holdings are visible via the app's interface along with any cash available, similar to how balances are seen on online banking systems.

The physical gold backing each investor's GoldPass® holdings is represented in the form of digital certificates within the app.

All GoldPass® digital certificates are 100% backed by physical Perth Mint gold stored in its central bank grade vaults, with the weight and purity of every ounce guaranteed by the Government of Western Australia.

SMSF trustees who wish to find out more information about GoldPass® can do so at the following website: **www.perthmint.com/goldpass**

BUY AND STORE INDEPENDENTLY

Bullion bars and coins

For investors who wish to store physical precious metals themselves, our bullion range comprises:

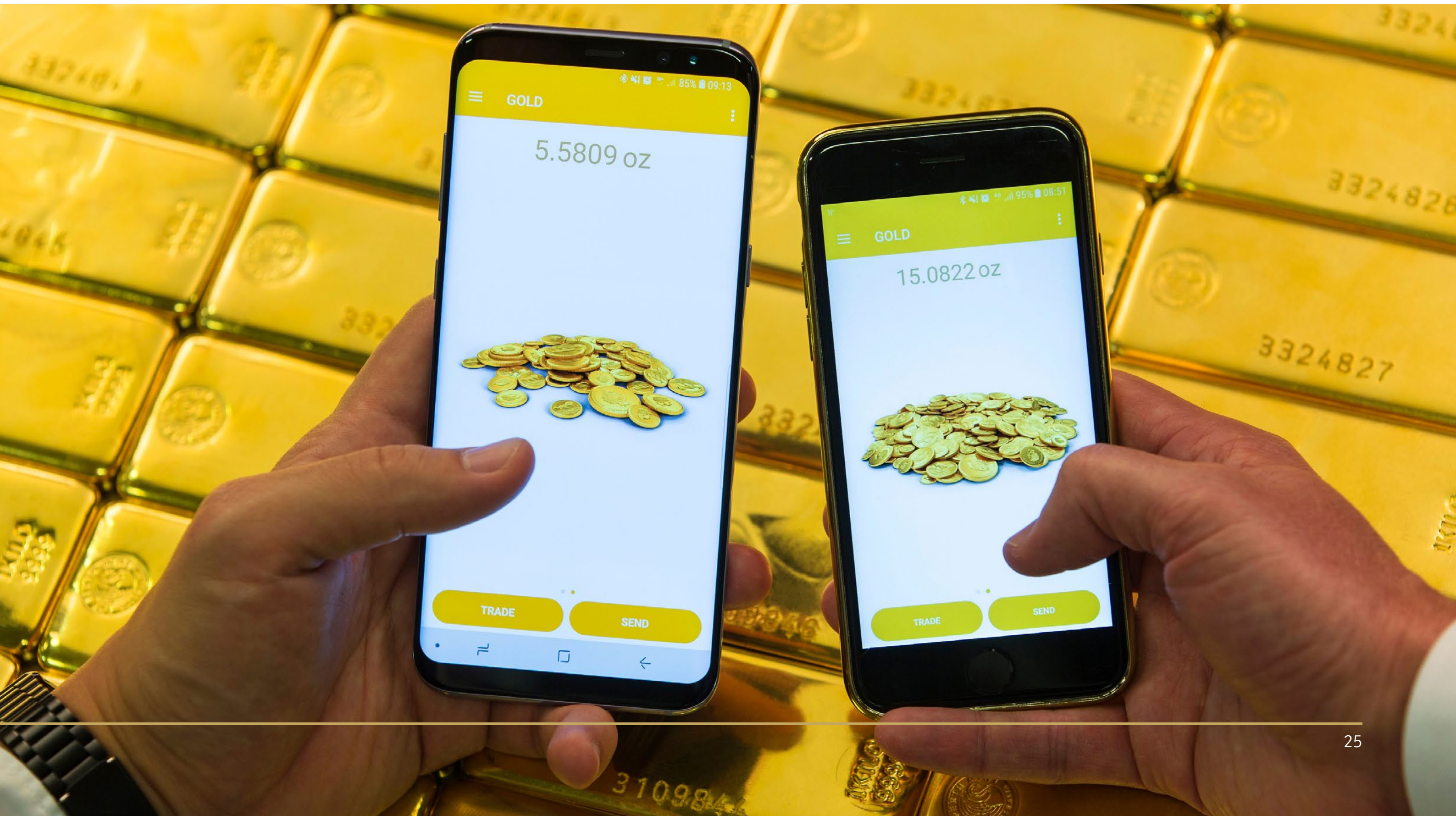
- Gold and silver minted bars
- Gold and silver cast bars
- Gold, silver and platinum bullion coins

Bullion products can be ordered online or by phone for secure delivery to an approved location of the investor's choice. Alternatively, they can be purchased over the counter in our bullion trading room.

Please note that while we will happily accommodate SMSF trustees who choose to invest and take delivery of physical bars and coins for collection or delivery, there are some factors to consider:

- No government guarantee: The guarantee provided by the Government of Western Australia applies to client holdings on deposit at The Perth Mint's vaults. It does not apply to holdings withdrawn from the Mint.
- Reduced liquidity: The Perth Mint can buy back metal held in our depository with a phone call or email. Metal that has been delivered or collected needs to be brought back to our showroom in Perth, reducing the ease of sale.
- Streamlined reporting: We are only able to provide regular valuations, including at EOFY, for metal held in our depository.

SMSF trustees who wish to find out more information about buying gold and silver bars and coins can do so at the following website: **www.perthmintbullion.com**



Data sources

The Perth Mint has sourced data used in calculations from a number of sources, including Global Financial Data, IRESS, Bloomberg, Chant West, the Australian Bureau of Statistics and Reuters. All data has been obtained from sources The Perth Mint deems to be reliable, but we do not guarantee their accuracy or completeness.

Australian Equity Data is All Ordinaries Accumulation Index from 1970 to May 2013. ASX 200 Accumulation Index from May 2013 onward. Australian Fixed Income data is Australian 10 Year Government Bond Index from 1970 to May 2013. S&P Composite All Bond Index from May 2013 onward. Australian Cash Data is Australian Total Return Bills Index from 1970 to May 2013, 90 Day Bank Bill Index from May 2013 onward. Australian Gold Price Data is LBMA London Gold Fix converted to AUD using Bloomberg FX rate.

Disclaimer

Past performance does not guarantee future results.

The information in this white paper and the links provided are for general information only and should not be taken as constituting professional advice from The Perth Mint.

The Perth Mint is not a financial adviser.

You should consider seeking independent financial advice to check how the information in this brochure relates to your unique circumstances.

All data including prices, quotes, valuations and statistics included have been obtained from sources The Perth Mint deems to be reliable, but we do not guarantee their accuracy or completeness.

The Perth Mint is not liable for any loss caused arising from the use of, or reliance on, the information provided directly or indirectly, by use of this white paper.

Find out more

For further information about our SMSF solutions please contact Perth Mint Senior Investment Manager Jordan Eliseo at **Jordan.Eliseo@perthmint.com** or on (61 8) 9421 7250, or our Depository team at **Depository@perthmint.com** or on (61 8) 9421 7250.

THE PERTH MINT
AUSTRALIA