THE PERTH MINT
AUSTRALIA

Gold's role in a modern portfolio

Why now is the time to invest in gold

Contents

Introduction

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

Contemporary investment vehicles have made precious metals more convenient than ever to hold within a diversified investment portfolio to help build and protect their wealth.

While listed equities domestic and international, Australian fixed interest, cash (including term deposits), infrastructure and property comprise the majority of assets held by Australian Industry, Public Sector and Retail Superannuation funds, demand for precious metals has been growing over the past two decades.

Indeed, many astute investors allocate 5-10% and sometimes more of their portfolio to gold.

Those who have invested in the metal have been well rewarded, with the gold price rising from below USD 300 per troy ounce (oz) to over USD 2,750 oz since the year 2000. In Australian dollar terms, the price has risen from below AUD 450 oz to more than AUD 4,200 oz over the same period.

This has seen gold generate returns of 9.3% per annum in Australian dollar terms since the turn of the century, making it one of the best performing asset classes during this time.

With a wide choice of investment products, The Perth Mint has been at the forefront to support the growing demand for precious metals.

With our unique government guarantee, The Perth Mint now holds more than AUD 8.5 billion in physical precious metals for clients including, a Leading Industry fund, SMSFs, central banks, sovereign wealth funds and institutional investors.

In this paper we review:

- the performance of gold;
- inflation and the outlook for precious metals in the years ahead;
- the five main benefits precious metals can offer investors as they seek to build and protect wealth; and
- what to look for when investing in precious metals.

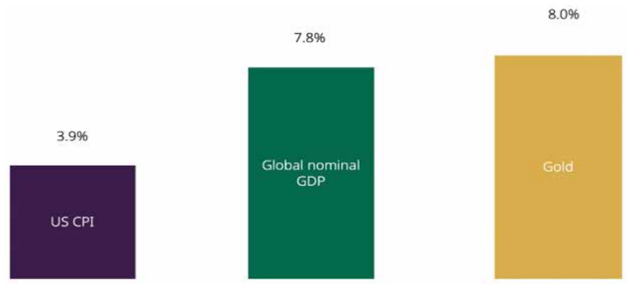
Gold: 50 years of outperforming inflation

Market history is unambiguous. In times of high inflation and/or stagflation, gold is known as one of the best performing asset class investors can own.

For many investors, gold is best known as a hedge against rising inflation. Even gold's most significant detractors tend to acknowledge that over the long run, the precious metal can be expected to hold its value, or its purchasing power.

There is solid evidence to back this up, with a study by the World Gold Council covering market data since the 1970s finding that gold has on average delivered an annual 8% gain since 1971[1].

Annual growth in US CPI, global nominal GDP and gold price (1971–2023)

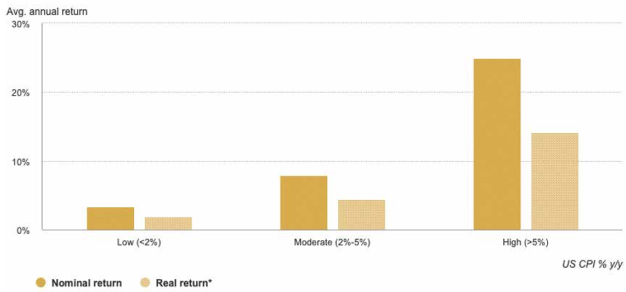


Source: Bloomberg, Federal Reserve Bank of St Louis, LBMA Gold Price PM, World Gold Council

Gold is regularly referred to as an inflation hedge and data supports this. Analysis from the World Gold Council demonstrates gold prices have outperformed both the US and world consumer price indices, providing impressive returns during periods of high inflation.

In fact, the more persistent inflation is, the stronger gold's nominal and real return is:

Gold's performance during inflation

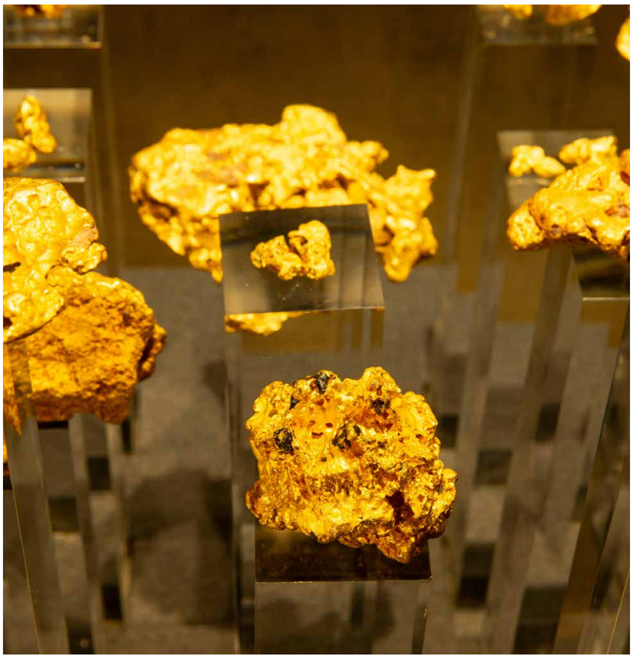


Source: World Gold Council; Bloomberg; ICE Benchmark Administration[2]

**As of 31 December 2023. Based on yoy on changes in the USD gold price. LBMA gold price PM and inflation. US CPI since January 1971.*

In particular, when the US was experiencing moderate inflation, gold's price increased 8% per annum on average.

When inflation became entrenched, gold's return was significantly higher.

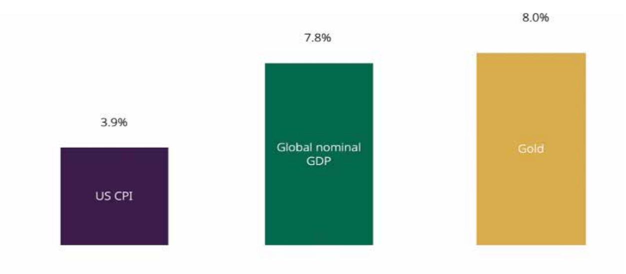


Australian dollar gold price thrives during high inflation

For Australian investors, holding gold during periods of high inflation has proven to be equally fruitful.

Analysing the period between 1993 to 2022, when inflation is below 3% per annum, gold has returned 5.4%, however gold's role as a portfolio protection tool excels when inflation exceeds 3%, having returned 12.3% to Australian investors.

Australian gold price performs well when inflation exceeds 3%



Source: World Gold Council; Bloomberg

**Based on Australian quarterly CPI, AusBOnd 0+ Composite Index; Bloomberg Barclay Global Agg; ASX300 and MSCI World Index between Q4 1992 and Q2022*[3]

Market history makes it clear that in times of high inflation, gold has been one of the best performing single asset class investors can own.

Australia's annual inflation rate has only recently dropped below 3% per annum and looks to remain sticky in the medium term, with the Reserve Bank of Australia predicting the inflation rate won't reach the middle point of the target inflation band until 2026.[4]

Moving forward, there is a good chance the inflation dynamics at play in the market will continue to evolve in gold's favour, and act as a tailwind supporting higher precious metal prices in the years to come.

Two reasons which may be supportive of the gold price in the long term include:

- Onshoring will be a key theme for the next few years, as the fragility of global supply chains exposed by the pandemic encourages multinational organisations to produce and/or procure goods closer to their core markets, even if this has cost implications.
- The transition to a lower carbon economy, which will see reduced capital expenditure dedicated toward the extraction of certain fossil fuels, as well as greater demand for certain commodities (lithium, silver etc) that are integral to net zero initiatives.

The return of stagflation

Until inflation falls back within central banks targeted bands, stagflationary risks have not disappeared.

Within the US, the manufacturing and services Purchasing Managers Index (PMI) is below 50, suggesting economic contraction. Additionally, unemployment is gently trending south, as is inflation, however the latter remains vulnerable to geopolitical tensions simmering in the background.

A dovish Federal Reserve Bank may be no match for slowing economic growth and rising inflation if global supply chains are disrupted once more. More so given the US' reliance on consumer spending to drive its economy.

Should stagflationary pressures emerge in the years ahead, then the case for gold, based on historical observation, would be even more compelling.

Nonetheless, this is what drives gold's appeal: the ability to generate high returns during periods of economic weakness and geopolitical instability.

Why invest in gold

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

While past performance is no guarantee of a future outcome, many investors are choosing to allocate 5-10%, and in some cases more, of their portfolio to the metal.

Even though gold has enjoyed a healthy return for the first half of this decade, this precious metal has five reasons why investors should consider adding it to their portfolio.

Growth over the long-term

One of the primary reasons investors purchase gold is to benefit from its potential price growth. Historically, the precious metal has generated strong long-term returns, both in absolute terms, and relative to other asset classes.

This is illustrated in the table below, which highlights the returns of a range of asset classes including gold over multiple time periods to the end of last year.

Gold's multi decade returns compared to other asset classes

Asset class returns(%) over multiple time periods ending October 2024				
Asset Class	YTD	5 years	10 years	20 years
Gold	33.17%	14.78%	11.12%	10.22%
ASX 200	9.12%	6.83%	4.60%	4.10%
Aus Corporate Bonds	4.62%	2.68%	3.40%	5.12%
Commodity Index	5.66%	7.80%	2.64%	-0.20%
Cash	3.54%	1.81%	1.91%	3.34%

Source: World Gold Council

The table makes it clear that gold has either nearly matched or in many cases exceeded the returns generated by more traditional investments.

This strong performance of gold is not contained to the new millennium alone, with the yellow metal delivering price growth of over 10% per annum since 2004.

Leading performance during low real rates

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

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

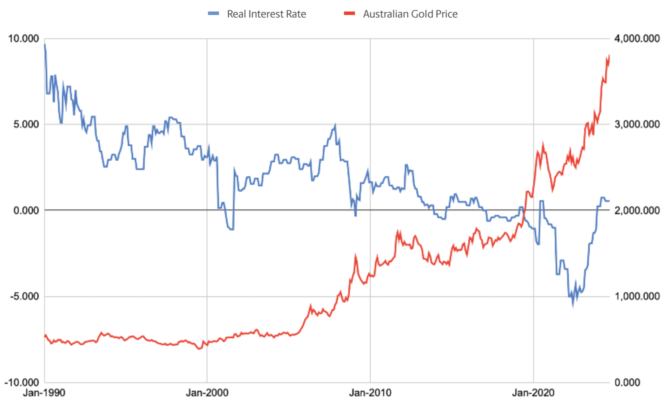
Much of the money Australian households have sitting in cash is losing value in real terms.

This state of affairs may persist for years to come given the inflationary threats emerging, and the likelihood that interest rates may not move meaningfully higher for some time. Indeed, the bond market is telling us real interest rates may remain negative for the better part of a decade at least.

This environment is likely to be supportive of gold, with more than 50 years of market history demonstrating that the precious metal has typically delivered very strong returns in the years when real interest rates were 2% or lower.

This can be seen in the chart below which highlights Australian dollar gold's strong performance as real rates declined:

Gold benefits from low real interest rates



Source: Australian Bureau of Statistics; Reserve Bank of Australia; The Perth Mint[5]

Further arguing the case for an allocation to gold in low real interest rate environments is the fact that not only has gold done so well on an absolute basis, but on a relative basis as well, with the precious metal typically outperforming equities and fixed income assets during these periods.

Real interest rates

Real interest rates are calculated by subtracting the official inflation figure from the RBA cash rate. As an example, if the RBA cash rate was 8%, and annual inflation was 5%, then the real interest rate would be 3%. If the RBA cash rate was 2% and annual inflation 3%, the real interest rate would be -1%.

Three key drivers help explain why gold has delivered such strong absolute and market leading relative returns in these environments.

- Low or even negative real interest 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, seeking out safe haven assets such as gold.
- Real rates have remained low even as central banks have embarked on a tightening cycle. Inflation in major economies such as Australia have reached a 30 year high, preventing real rates from rising meaningfully.
- If the real interest rates investors can earn from cash or short-term bonds are low, or even negative, then the opportunity cost (in terms of income foregone) of investing in gold is significantly reduced.

The multi asset portfolio

Gold is a widely trusted safe haven asset and has a role to play in any multi asset portfolio.

Traditional portfolio construction often includes an allocation to cash and term deposits, property, infrastructure, bonds, local and international equities.

A look back in history tells us that this type of portfolio breakup has benefited investors since the start of this century.

The negative correlation between equities and bonds are meant to limit times of market distress. That is, when equities perform badly bonds perform well, and when bonds underperform, equities would rally.

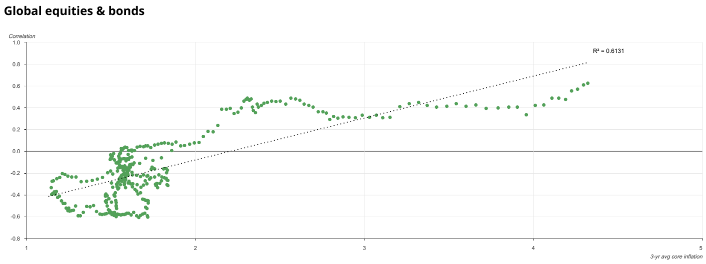
This relationship has persisted and been a profitable method of wealth management for over two decades.

Investors could rely on bonds to mitigate portfolio risk when equities sold off.

Entering into the 2020s, however, may see a return of a positive stock-bond relationship, a phenomenon which prevailed during the 70s, 80s and 90s.

Analysis from the World Gold Council suggests this new trend is already underfoot, noting the stock-bond correlation has risen in the past four years as inflation increased:

Correlation patterns of bonds & equities and gold & equities at different levels*



Stock-bond correlation becomes more positive during high inflation

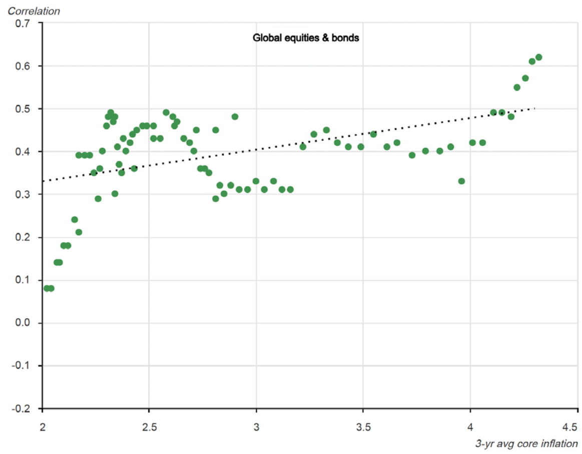


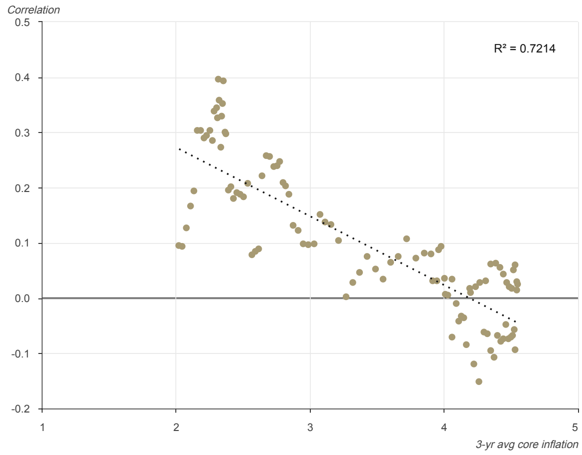
Chart source: World Gold Council; Bloomberg

**Note: Based on monthly data of MSCI World Index, Bloomberg Global Treasury Index (AUD Hedged) and LBMA Price between 1990 and 2021. All calculations in AUD.*

A return of a positive stock-bond correlation is disruptive to the traditional portfolio construction which relies on the negative relationship between the two. As this event unfolds in financial markets it forces investors to reallocate their investments and perhaps take on unnecessary risk in the process.[6]

Gold, on the other hand, has proven to have a negative correlation with global equities as inflation rises, making gold an excellent asset for true diversification:

Gold has a negative correlation with global equities during high inflation



Source: World Gold Council; Bloomberg

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

The first is the degree of correlation that exists between equity markets across the globe.

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

The second, and most important, is that Australian investors including gold in their portfolio are creating a genuine multi asset portfolio that has negative correlation to equity markets, helping investors mitigate risks amongst an uncertain macroeconomic backdrop and future fiscal policies.

We may be on the cusp of a shift, as the negative stock-bond correlation reverses amid surging inflation, and a negative gold-stock correlation takes its place.

Gold can provide robust portfolio diversification because it is uncorrelated to equities and typically performs best when equity markets are weakest.

Combining gold and equities

Gold has historically generated positive returns in periods when equity markets are rising.

Reviewing twenty years of data, the World Gold Council created their own hypothetical portfolio. The assumptions included a 52% weighting to Australian equities, 18% cash and term deposits, 15% Australian property, 12% Australian bonds and just 3% to overseas equities.[7]

Analysing performance over a twenty-year period, the World Gold Council concluded that a 5-10% allocation to gold would have increased the risk-adjusted return.

Adding just 5% gold allocation increased risk-adjusted returns

Gold increased rick-adjusted returns								
	3 years		5 years		10 years		20 years	
	No gold	5% gold	No gold	5% gold	No gold	5% gold	No gold	5% gold
Annualised returns	2.60%	3.00%	4.60%	5.00%	6.30%	6.40%	6.40%	6.50%
Annualised volatility	15.00%	14.00%	12.30%	11.50%	10.20%	9.60%	9.60%	9.00%
Reward to risk	17.40%	21.60%	37.40%	43.60%	62.20%	66.70%	66.20%	72.90%
Maximum drawdown	-20.30%	-18.60%	-20.30%	-18.60%	-20.30%	-18.60%	-38.10%	-34.40%

Source: World Gold Council; Bloomberg; ICE Benchmark

Adding gold to a portfolio has a favourable impact on a variety of time frames.

Gold offers superior performance compared to other asset classes during bouts of stagflation, but its gains are more muted during other economic periods.

What about gold's volatility?

Despite the strong long-term return's gold has generated and its role as a trusted safe haven, the fact that the gold price is volatile at times can worry some investors.

While this is understandable, the following three factors may alleviate these concerns:

1. Gold's volatility is more driven by sharp upside movements relative to sharp corrections.
2. These sharp moves to the upside often occur when equity markets are selling off.
3. Combining gold with equities results in a portfolio with substantially lower volatility than the two assets on a standalone basis.

Foreign currency diversification

Gold provides a form of foreign currency exposure, enhancing portfolio diversification for investors as it is independent of any single country's economy or currency.

Unlike most assets, gold doesn't depend on the economic health of a single nation, which makes it less susceptible to exchange rate fluctuations or currency devaluation. Its globally recognised value can help investors maintain stability in their portfolio, regardless of the financial and stock market conditions in any specific country.

Gold's reputation as a 'safe haven' asset also enhances its appeal as a currency hedge. Historically, gold has often risen in value during crisis, as investors look to protect their wealth when traditional currencies are under pressure.

Additionally, gold can also reduce portfolio risk, as its price movements tend to have a low correlation with stock markets or the value of traditional currencies during periods of market extremes. This low correlation can balance out more volatile assets, helps portfolios weather financial economic fluctuations.

Gold is simple

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

Gold is:

- easy to invest in;
- accessible to a broad range of investors;
- low cost and liquid; and
- subject to minimal execution risk.

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

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). 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 (which allow for trading online, over the phone or via email). Holdings are backed by physical gold, the safekeeping of which is guaranteed by the Government of Western Australia. As sole owner of The Perth Mint, the Government of Western Australia guarantees our liabilities in accordance with the *Gold Corporation Act 1987* (WA) (**ACT**), ensuring we are one of the lowest risk precious metals enterprises in the world.

The Perth Mint provides regular valuations of these holdings, including at the end of the financial year, allowing investors`` 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 is no lock up period, no opaque fee structures, no derivatives or underlying instruments when it comes to the gold itself.

Accessible to all investors

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

Low cost and liquid

Daily turnover in the gold market typically averages in excess of USD 160 billion, making it one of the most liquid asset classes on the planet. Gold is a liquid asset, ranking at levels comparable to many global stock markets as well as currency spreads. Its liquidity is often sourced during periods of stress in the markets, one of its appealing qualities. 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, means that gold can be a very cost-effective asset class for investors to include in their portfolios.

The pricing and spreads offered by The Perth Mint ensure that it is a cost effective means for an investor to gain exposure to gold.

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 homogeneous asset class, every investor who owns gold 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 below, which comes from the June 2024 SPIVA (Indexed Versus Active) Australia Scorecard[8], produced by S&P Dow Jones Indices. The table plots the percentage of funds that were outperformed by their respective benchmarks across five popular asset classes, over multiple periods to the end of June 2024.

SPIVA Fund Underperformance Rate - All Australia Categories							
Fund Category	Comparison Index	YTD (%)	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)	15-Year (%)
Australian General Equity	S&P/ASX 200	48.32	65.66	69.57	68.1	82.16	82.16
Australian Equity Mid and Small-Cap	S&P/ASX Mid-Small	32.02	24.71	54.49	49.01	75.88	56.41
Australian Equity A-REIT	S&P/ASX 200 A-REIT	78.85	82.35	86.21	66.67	79.17	86.67
Australian Bonds	S&P/ASX Australian Fixed Interest 0+ Index	33.33	25	50	47.22	74.55	71.19
Global Equity General	S&P/ASX 200	72.38	78.41	88.49	90.91	93.28	88.24

Almost without exception, more than 50% of fund managers underperformed their respective indexes over the majority of these periods.

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

Summary of gold's attributes

Gold's historical ability to provide growth over the long-term and protection when it's needed most, combined with its easy accessibility has fuelled demand from astute investors worldwide.

Over the long term the precious metal has offered several key benefits, including:

- **Strong long-term returns:** The gold price has delivered long-term returns of almost 9% per annum since the early 1970s.
- **Strong out performance in low real interest rate environments:** Gold prices have risen in 20 of the 24 years when real interest rates in Australia were 2% or lower, as they are today. The average gain during those years has been almost 20%.
- **Protection against equity market falls:** Gold has historically been the highest performing single asset class in environments where equity markets suffer their biggest corrections.
- **Wealth preservation in high inflation environments:** Gold has been one of the best and most reliable performers in periods of high inflation and/or stagflation, with average annual returns in excess of 12% in years inflation rates have been 3% or higher.
- **Currency diversification:** Gold offers foreign currency exposure in an Australian investor's portfolio, with declines in the value of the Australian dollar typically magnifying the gains gold delivers local investors in periods equity markets fall.
- **Liquidity and simplicity:** Gold is highly liquid and simple to incorporate into a portfolio.

While other asset classes can offer some of these benefits, gold is arguably the only asset that offers all the above attributes in one easily accessible investment.

A spotlight on silver

Silver often outperforms during precious metal bull markets.

While gold attracts most of the attention in the markets and in financial media when it comes to talking about precious metals, silver is also a popular investment.

It is driven by many of the factors that influence gold, although it does have a much higher industrial component to its demand and usage.

For example, net physical investment for bars and coins and silver jewellery in 2024 is only slightly more than 37% of total silver demand.[9]

By contrast, purchases for gold jewellery, bars and coins, as well as investments into gold ETFs, generally represent more than 90% of total physical demand for gold in any given year.

Silver's dual role as both a monetary and industrial metal, is the primary reason it is more volatile than gold, with prices typically increasing and decreasing more rapidly than the gold price.

What to look for when investing in precious metals

Two key questions to consider are whether the counterparty 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 because they are physical assets that need to be stored securely.

When assessing which business to invest in precious metals with, investors should consider the following factors:

History and reputation

- When was the organisation founded?
- Who/what is (are) the owner(s)?
- What is the counterparty risk?
- What guarantees protect investors' precious metals holdings?
- Is the organisation a member of globally recognised precious metals industry bodies such as the London Bullion Market Association (LBMA)?
- Does it refine and manufacture a range of gold bars to suit my investing needs?
- Are the investment products backed by physical gold?

The Perth Mint is owned by the Western Australian government, making this the world's only government-owned and guaranteed precious metals enterprise.

The Perth Mint has been minting, refining and storing Australia's gold for more than 125 years cementing its reputation for quality and creating markets for refined precious metal products across the globe.

The Perth Mint is accredited for both gold and silver by the London Bullion Market Association (LBMA) and is an internationally recognised brand.

Transparency, accessibility and reporting

Transparency and reporting are crucial tools for investors. Does the business quote the gold price on its website? Is the fee structure clear and simple to understand? Will portfolio valuations and trade information be provided in a timely manner?

Transacting with The Perth Mint is simple. Investors who store metal with The Perth Mint have the option to take physical delivery anytime.

Publicly available audited statements

Two critical questions to consider are: whether your chosen precious metals business makes its financial information publicly available and is this information externally audited. Examples to look for include annual reports and physical gold bar lists where relevant.

Financial statements for The Perth Mint are publicly available and audited by the Auditor General.

Counterparty risk and financial strength

Gaining access to a business's financial information means investors can gain a better understanding of the balance sheet strength of the business. While gold is a highly liquid and deep financial market, this is of little comfort if the business lacks the financial strength to make a market when investors are looking to buy or sell.

The Government of Western Australia has been awarded an AAA risk rating by S&P and Aaa by Moody's Investors Services, these are the lowest risk ratings a country or government can receive.

These ratings underpin The Perth Mint's unique government guarantee and additionally any stored metal with the Mint is comprehensively insured.

Along with storing metal for a number of Family Wealth Offices, and High Net Wealth Individuals, The Perth Mint is the appointed gold custodian for the VanEck Gold Bullion ETF (NUGG), an exchange traded fund listed on the Australian Securities Exchange.

It's important to understand your counterparty risk when it comes to precious metals holdings, because the safety and assurance of any investment is paramount.

Located in a safe geopolitically stable location, The Perth Mint offers storage solutions away from traditional locations such as London.

The Government of Western Australia guarantees our liabilities in accordance with the Gold Corporation Act, ensuring we are one of the lowest risk precious metals enterprises in the world. This unique guarantee is outlined in Section 22 of the Gold Corporation Act can be found here.

About The Perth Mint

More than AUD 8.5 billion in client metal safeguarded

The Perth Mint is Australia's largest and most highly accredited precious metal enterprise. Offering a comprehensive suite of investment options including the exchange-traded product **PerthMint Gold [ASX:PMGOLD]**, storage solutions and physical bars and coins. The Perth Mint is trusted by clients across numerous countries to safeguard their wealth. With assets under management in the billions, The Perth Mint is the leading supplier of precious metals in Australia.

Unique guarantee and structure

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

The Perth Mint's diverse operations are bound by strict prudential management guidelines and policies to ensure compliance with legislative and regulatory requirements, as well as Australian codes of practice.

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Data sources

The Perth Mint has sourced data used in calculations from a number of sources, including the World Gold Council, Silver Institute, Australian Bureau of Statistics, Reserve Bank of Australia, S&P Global and Bloomberg. All data has been obtained from sources The Perth Mint deems to be reliable, but we do not guarantee their accuracy or completeness.

For further information about our SMSF solutions please contact:

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