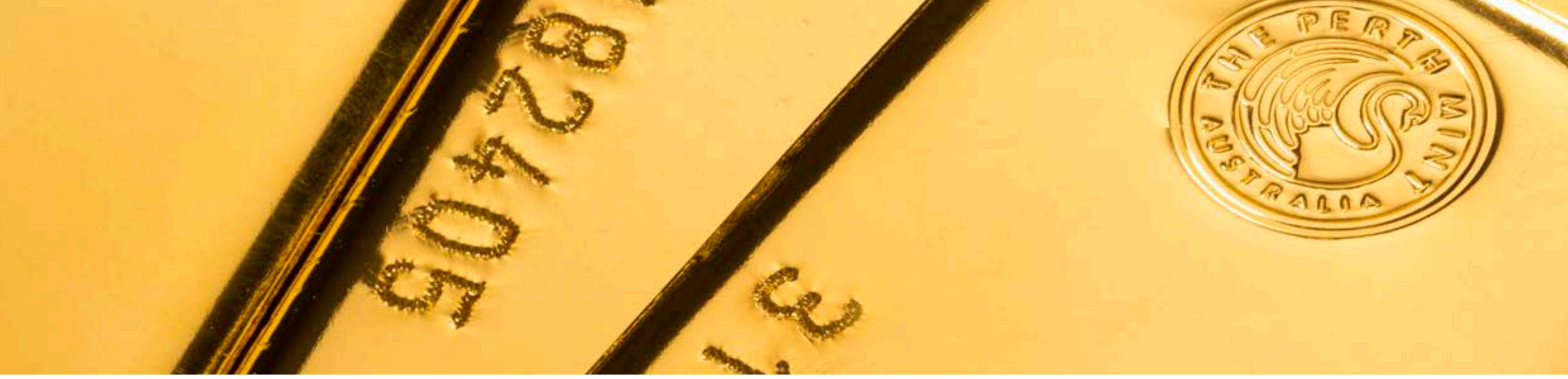
THE PERTH MINT
AUSTRALIA

Gold guide for self-managed super fund trustees

2023 edition

Contents



Introduction: Why investors should understand the benefit of gold in their portfolios

Many astute investors allocate a small percentage of a diversified portfolio to gold.

Gold has 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.

This is highly relevant to Self-Managed Superannuation Fund (SMSF) trustees seeking to build and protect their wealth.

According to the most recently released statistical overview by the ATO on SMSFs, they make up approximately 25% of all super assets. As at 30 June 2021, there were almost 598,000 SMSFs which collectively held AUD 822 billion (25%) of the AUD 3.3 trillion in super assets under management.

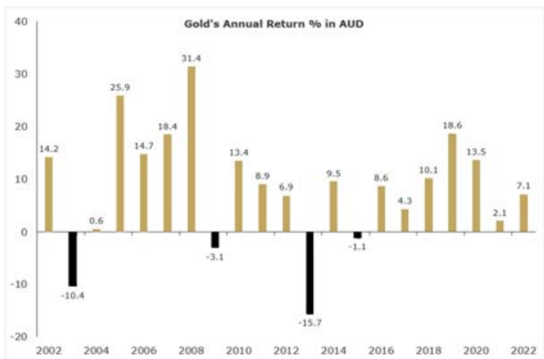
75% of all SMSF assets are held in one of the following five investments: Australian listed shares, cash and term deposits, unlisted trusts, non-residential real property, and limited recourse borrowing arrangements (LRBA) assets. However, demand for precious metals has been growing significantly over 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 under USD 350 per troy ounce (oz) to more than USD 1,800 oz in the past 20 years. In Australian dollar terms, the price has risen from above AUD 600 oz to more than AUD 2,670 oz over the same period.

This has seen gold generate returns of 8.65% per annum in US dollar terms and 342% (7.7% per annum) in Australian dollar terms during the last 20 years, making it one of the better performing asset classes during this time.

During 2022 gold prices posted a small gain in US dollar terms in a year when real yields (10-year TIPs) rose an unprecedented 250bps and the US dollar gained more than 8%. The previous largest annual rise in yields was 150bps with a flat dollar which occurred in 2013.

2022 provided a textbook example of how diverse sources of demand and supply can counterbalance one another and provide gold with its uniquely stable portfolio-additive performance.



As at 31 December 2022. Based on the LBMA gold price PM Fix in local currencies (AUD)

Market performance and gold

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.

A portfolio made up of 60% stocks and 40% bonds has long been a classic ratio for investors who want a balanced mix of income and growth. It is founded on the belief that when equities are in trouble, bond prices will rally in an instinctive flight to the safety of fixed income returns.

In 2022, a 60/40 mix blending the S&P 500 index with the Bloomberg US Aggregate Bond Index would have lost 16%. That was the worst year for the portfolio since a negative 21% showing in 2008, and the second worst on record since 1976, according to Vanguard.

Last year marked the worst performance for bonds since the 1970s and while soaring inflation overshadowed this narrative, it remains an important economic storyline for investors.

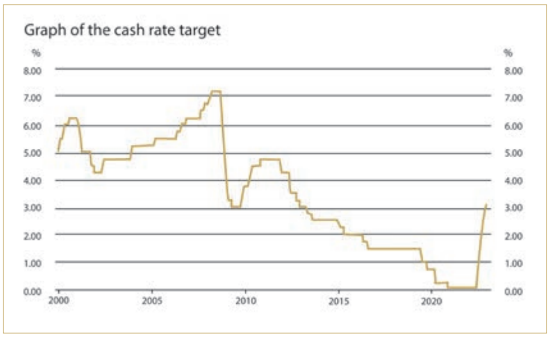
Noting in the last 30 years, the stocks/bonds 60/40 portfolio recorded a 7.87% compound annual return, with a 9.40% standard deviation.

Locally, in early May 2022 the Reserve Bank of Australia (RBA) announced it was lifting the cash rate from a historical low of 0.10% per annum to 0.35% per annum – its first rate increase since November 2010.

Since then the RBA has announced seven more rate rises in as many months (four 0.50% increases, three 0.25% increases), taking the cash rate to 3.10% as per its announcement early December 2022. However, as the below graph shows, current rates are still lower than the period during the GFC.

In the US, the Federal Reserve raised the federal funds rate seven times in 2022 with December's hike increasing the rate to 4.5%, pushing borrowing costs to the highest level since 2007. The Federal Reserve now expects interest rates to reach 5.1% this year, 4.1% in 2024, and 3.1% in 2025.

Before 2022 there had not been a single 75-basis-point increase since 1994, let alone three in one year. But rates have been this high, and even higher, many times before – most recently from 2005 through 2007. Indeed, rates were 4% or greater for most of the 1990s through 2001 and were near 20% in early 1980.



Source: RBA

A recent survey of 16 institutional investors and advisers' predictions for 2023 found wide variations for US interest rates in 2023, some predicting The Federal Reserve will cut rates during the year ahead, with others predicting the rate could hit 6%. Both scenarios will all have an impact on the price of gold for 2023.

Aggressive monetary policy in most western economies and a strong safe haven bid for the US dollar conspired to reduce interest in exchange traded funds (ETFs), futures, and over the counter (OTC) investment. The question many commentators posed was why gold didn't fare better, given multi-decade high inflation.

The answer is two-fold:

1. First, long-term inflation expectations remained conspicuously well anchored in 2022, suggesting that investors were confident that central banks could control inflation.
2. Second, institutional and professional investors are likely more interested in how they are compensated for inflation, and hence take more cues from monetary policy than inflation developments.

Source: The Federal Reserve Bank of New York

Why are SMSF trustees investing in gold?

1. 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.

2. Protection when it's needed most

Gold is a widely trusted safe haven asset. Investors often allocate a portion of their portfolio to gold as they see it as the asset most likely to rally in those periods that equity markets and other 'risk' assets experience heightened volatility or major corrections.

There is a good reason gold has developed this safe haven status, as it has tended to be the best performing individual asset whenever equity markets experience sharp falls.

3. Foreign currency diversification

Gold provides a form of foreign currency exposure, and therefore diversification, for SMSF trustees.

Though not always the case, this foreign currency element will often enhance the protective qualities that gold can bring to a portfolio. This is due to the fact that during 'risk off' environments, when share markets are falling, the Australian dollar also tends to decline versus the US dollar, magnifying the gains and, therefore, protection 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 US dollars rose by just over 4%.

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

4. Gold is simple and easily accessible

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 a broad range of investors
- Low cost and liquid
- Subject to minimal execution risk

5. Easy to invest in

Gold is incredibly easy to purchase, store and sell.

One of the most popular ways to access gold is via listed products, including Perth Mint Gold. Traded like a regular share on the Australian Securities Exchange (ASX) under the ticker code *PMGOLD*, it can be bought and sold via a stockbroker or standard share trading account.

Gold can also be bought direct through The Perth Mint via its 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 is no lock up period, no unclear fee structures, no derivatives or underlying instruments when it comes to the gold itself.

6. 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 gold valued from as little as AUD 50, which is the minimum trade size for *The Perth Mint's Depository Online* solution. Its ASX-listed gold product, *PMGOLD*, is typically subject to the same minimum investment amounts as regular shares.

7. Low cost and liquid

Daily turnover in the gold market typically averages USD 130 billion, 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, means that gold can be a very cost-effective asset class for investors, including SMSF trustees, to include in their portfolios.

The following table illustrates this, highlighting the average management expense ratios (MER) for a range of asset classes that can be purchased via ETFs on the ASX, as well as the average of the entire ETF sector.

The table also shows the MER for PMGOLD, The Perth Mint's ASX listed gold product. The MER, at a highly competitive 0.15%, is one of the most competitively priced products listed on the ASX and the cheapest gold exchange traded product (ETP).

Management expense ratios and trading spreads for ETFs

Asset Class	Average management fee (% per annum)
Currency	0.82
Commodities	0.53
Australian Equities	0.63
Average of all ETFs	0.56
Property	0.63
Fixed Income - Global	0.42
Mixed Asset	0.36
Equities	0.62
Fixed Income - Australia Dollar	0.25
Australian Equities - large cap	0.21
PMGOLD	**0.15**

Source: The Perth Mint, ASX December 2022 investment products monthly update

What about gold's volatility?

Despite the strong long-term returns 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:

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

Summary of gold's attributes

> *"Gold's historical ability to provide growth over the long-term and protection when its needed most, combined with its easy accessibility, has fuelled demand from astute investors worldwide. This includes SMSF trustees in Australia."*

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.
- **Protection 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, with declines in the value of the Australian dollar typically magnifying the gains gold delivers local investors in periods when equity markets fall.
- **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 can offer some of these benefits, gold is arguably the only asset that offers all the above attributes in one easily accessible investment.

How to choose the right precious metals provider

When assessing which entity to invest in precious metals with, 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 precious metal industry bodies such as the London Bullion Market Association (LBMA)?
- Does it refine and manufacture a range of gold bars?
- Are its investment products backed by physical gold?

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 an annual report, and physical gold 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 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 buy or sell.

4. Transparency and reporting

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

5. Are the precious metal holdings guaranteed?

A guarantee can provide further peace of mind regarding the safety of an investment, and the comfort a trustee can have utilising a third party to custody their gold holdings.

About The Perth Mint

More than AUD 6 billion in customer metal safeguarded.

The Perth Mint is Australia's largest and most highly accredited precious metals enterprise. Offering a comprehensive suite of investment options including exchange traded product ASX:*PMGOLD*, storage solutions, and physical bars and coins, the Mint is trusted by more than 70,000 clients across 100 countries to safeguard their wealth. With assets under management valued at AUD 6 billion, 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 gained from the knowledge that a highly rated sovereign entity is fully underwriting all its offerings.

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.

With an annual turnover of more than AUD 20 billion, The Perth Mint's markets include Australia, China, India, North America, and Europe.

Data sources

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

Australian gold price data is LBMA London Gold Fix converted to AUD using Bloomberg FX rate to 1978, AUD gold price published by World Gold Council onward.

Average Daily Trading Volumes

Sources: Bloomberg, Bank for International Settlements, UK Debt Management Office (DMO), Germany Finance Agency, Japan Securities Dealers Association, Nasdaq, World Gold Council.

Management expense ratios and trading spreads for ETFs. Sources: The Perth Mint, ASX December 2022 investment products monthly update

Disclaimer

Past performance does not guarantee future results.

The information in this article 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 article 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, whether due to negligence or otherwise, arising from the use of, or reliance on, the information provided directly or indirectly, by use of this article.

THE PERTH MINT
AUSTRALIA

For further information about our SMSF solutions please contact:

The Perth Mint Depository
depository@perthmint.com
(61 8) 9421 7250