

Theme: Gold & Gold Miners

NOVEMBER 2023

Overview

"Gold is a barbarous relic" John Maynard Keynes

"Gold is and always has been a hedge against the silliness of Central Bankers" Charles Gave

These polarising opinions neatly encapsulate the investment debates that have surrounded Gold and the other precious metals for centuries.

Many investors believe it is a worthless instrument, offering no yield and incurring substantial opportunity cost. Others consider it to be an effective store of value and the ultimate protection against financial system turmoil.

We are no "gold bugs," but we do believe Gold and related investments often merit an allocation in portfolios, especially during times (like now) when policymakers stimulate aggressively at the slightest hint of any economic or market weakness. Regular policy intervention leads to elevated fiscal deficits and frequent Central Bank money printing which, in turn, erodes the purchasing power of fiat currencies.

Gold has stood the test of time as a reliable hedge against fiat currency debasement. Unlike paper money, it cannot be printed endlessly and it carries no one's liability. A similar argument can be made for Silver, although its extensive industrial usage typically renders its price more sensitive to business cycle fluctuations, at least in the short term.

Recent economic and political conditions have increasingly favoured Gold, as evidenced by it achieving record-high prices across multiple currencies. We anticipate further price increases looking out to the rest of this decade and beyond, although we expect these gains to be accompanied by considerable volatility and periodic, sizeable pullbacks.

We find ourselves amidst a debt super-cycle, where the most likely outcome is an extended period of outsized government borrowing and ongoing Central Bank intervention. This environment is highly conducive to the precious metals complex, which is why we hold high conviction positions in this asset class across most client portfolios.

We favour exposures to physically-backed Gold bullion ETFs as a direct play on the debt super-cycle's "endgame," which is likely to result in sustained fiat currency debasement.

For more risk-tolerant investors, we also hold dedicated Gold and Silver Mining equity positions. The Mining stocks tend to exhibit greater volatility than physical Gold or Silver, but they offer the potential for significantly higher returns. Historical bull markets have witnessed substantial appreciation in Mining stocks.

The theme can be summarised as follows:

- **What?**
Gold bullion serves as insurance against the ongoing debasement of fiat currencies, a consequence of record indebtedness within the modern economic system. Gold and Silver Mining stocks represent a higher return/risk approach to investing in a precious metals bull market.
- **Why?**
The prevailing debt super-cycle is rendering the global economy and financial markets more fragile, leading policymakers to resort to more aggressive stimulus measures. The resulting increase in monetary and fiscal largesse erodes the value of fiat currencies, enhancing the appeal of Gold and other "scarce" stores of value.
- **How?**
The Royal Mint's physically-backed Gold ETF and actively-managed Gold Mining funds.
- **Holding Period?**
5yrs+

A more detailed explanation of why gold bullion and the mining stocks are compelling long-term investments is as follows:

A reminder of what Gold is...

"Gold is money, everything else is credit" JP Morgan

Gold has a rich history as a store of value. From the prized possessions of ancient Egyptian pharaohs to the 19th-century gold rush, this precious metal has held a revered status. Iconic gold coins like the Aureus in ancient Rome and British sovereigns have represented power, trust and trade.

Its enduring appeal lies in its chemical stability, rarity and aesthetic beauty. This explains why Gold has served as a form of currency for over 6,000 years.

Gold continues to play a crucial role in the global financial system. Central Banks maintain Gold reserves as a means of preserving financial stability, a practice historically mandated under the widespread "Gold standard". This was a monetary system in which the value of a country's currency was directly linked to a specific quantity of Gold.

Gold has maintained its status as a unique store of value, with no superior alternative ever identified. Though advocates of Bitcoin argue it is a superior "digital Gold", it is too early to judge. That said, we remain open-minded to the competitive threat Bitcoin poses to traditional precious metals, especially amongst younger generations.

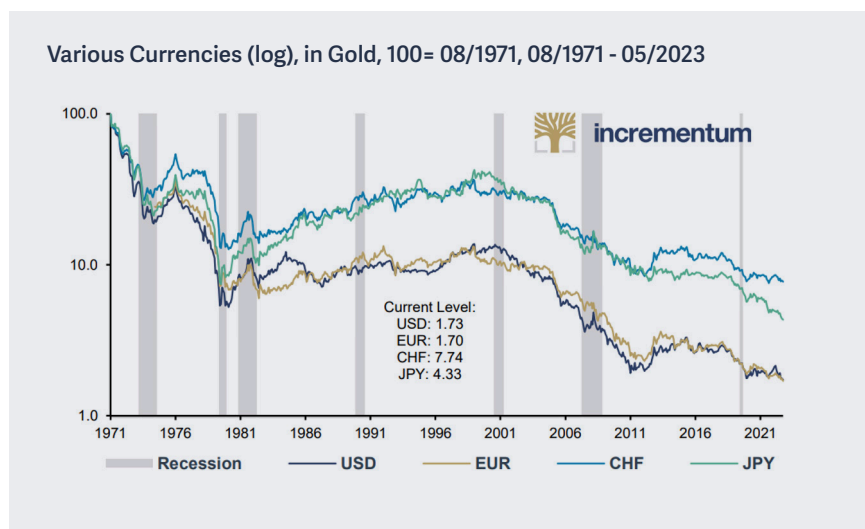
A consistent erosion of the purchasing power of fiat currencies has provided strong support for Gold, particularly in recent decades.

The concept of fiat currency, as we recognize it today, is relatively new and, in many major economies, less than a century old. Historically, local currencies were typically backed by physical commodities, primarily gold or silver. However, the post-World War II era saw the emergence of more widespread use of "paper" currencies, where value was derived predominantly from the trust and confidence in the issuing government. This shift removed the constraints associated with the limited supply of a physical commodity as collateral and granted policymakers the ability to effectively print new money as needed.

The adoption of fiat currencies varied among nations in the post-World War II period. Germany and Japan embraced fiat currencies immediately after the war, following the United Kingdom's decision to do so in 1931. However, one of the most pivotal moments in economic history occurred much later with President Richard Nixon's decision to take the United States off the Gold standard (an event known as the "Nixon Shock") on August 15th, 1971.

Nixon's administration faced the financial challenges of funding the increasingly costly Vietnam War and persistent trade deficits. This situation led foreign Central Banks to exchange their dollars for Gold at an escalating rate, depleting US gold reserves.

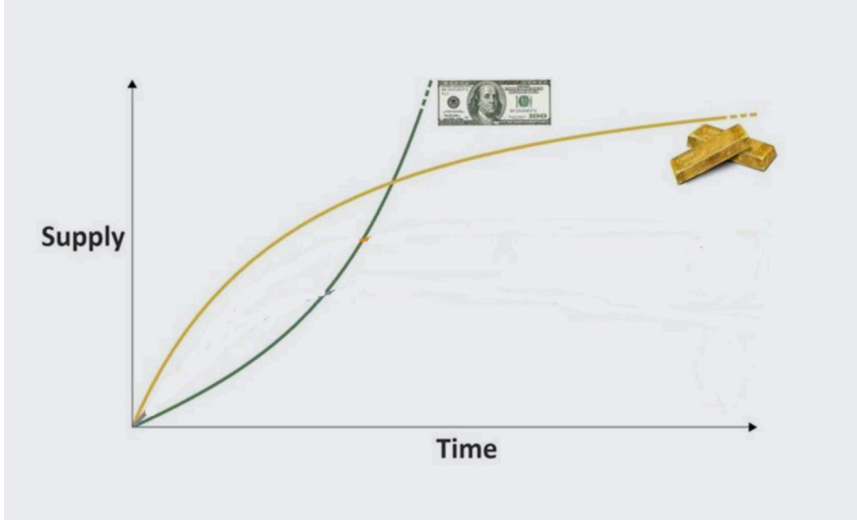
To address these issues, Nixon announced the suspension of the dollar's convertibility into Gold, effectively ending the Gold standard that had been in place since the Bretton Woods Agreement of 1944. This decision granted the US greater flexibility in managing its monetary policy but also marked a significant transformation in the global financial system, ushering in the era of fiat currencies. Fiat currencies derive their value primarily from political goodwill and trust, much to their detriment, as evidenced by their declining price relative to Gold since 1971:



Source: Reuters Eikon, Incrementum AG

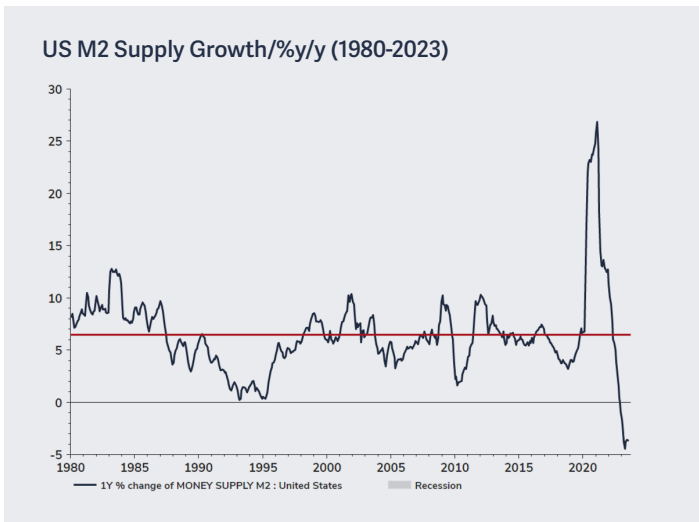
Critically, in an era of excessive monetary and fiscal intervention, the supply of Gold is not subject to the whim of politicians or Central Bankers, which makes it an effective hedge against the structural decline of fiat purchasing power.

The growth in supply of Gold has been broadly constant for decades, constrained to less than +2% p.a. due to its geological scarcity and high cost of extraction.



In contrast, the supply of fiat currencies (such as the US dollar, sterling, euros, etc.) has consistently exhibited much higher growth rates than the modest 2% p.a. seen in Gold.

Since 1980, the growth rate of the US broad "M2" money supply has averaged around 6% p.a. This trend persists even when accounting for exceptional events like the COVID-19 pandemic, which led to a record surge of 27% in 2021 before it experienced a rare contraction shortly afterwards.



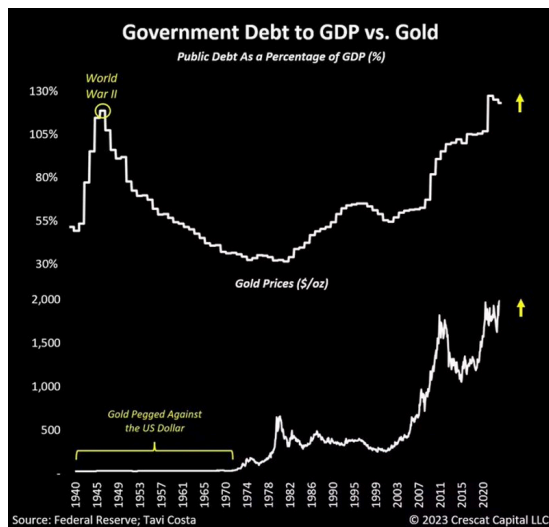
Source: LSEG Datastream

This means, on average, the amount of US dollars in existence grows by three times as much as Gold each year, which automatically enhances Gold's purchasing power.

As a result of these trends, on average, the supply of US dollars increases approximately three times as much as the growth of Gold each year, which naturally bolsters Gold's purchasing power.

One of our fundamental convictions is that fiat money supply will remain elevated in the future, comfortably exceeding the average supply growth of Gold, primarily because Central Banks are increasingly being called upon to assist in financing burgeoning government deficits.

The ongoing debt super-cycle has led to unprecedented levels of government indebtedness and unfunded future obligations. Corporate debt has also reached historic highs. These circumstances bode well for the Gold price, as it has historically exhibited a tendency to rise in tandem with debt usage.



There are several ways to solve a major debt crisis:

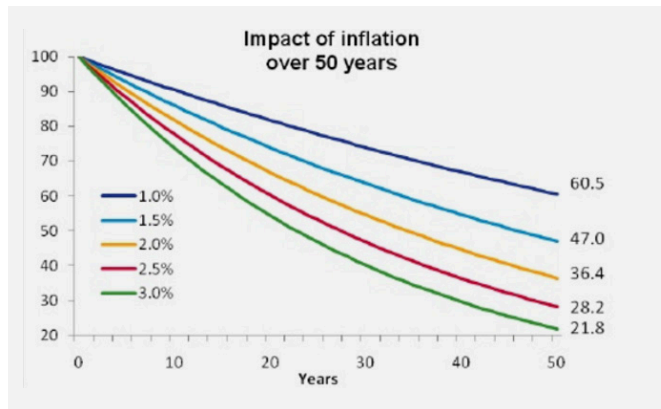
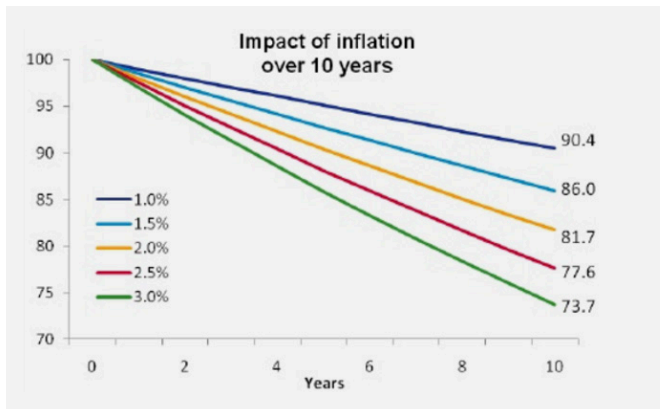
- Allow for debt defaults and a likely economic depression. This approach was chosen in the 1930s and policymakers have since been reluctant to adopt the same strategy.
- Raise taxes. While selective tax increases may be considered, broad-based tax hikes are unlikely, particularly in light of the prevailing political climate.
- Cut government spending. Reducing government spending is another option, but this can be challenging, especially when a significant portion of fiscal expenditure is dedicated to social security benefits such as pensions and healthcare.

This leaves policymakers with more politically appealing routes, including:

- Force the commercial banks to own more government debt. Regulatory changes can compel commercial banks to increase their holdings of government debt. This approach is already being implemented, although there are limits to how much debt banks can absorb.
- Monetise Debts Through Financial Repression: This approach involves asking Central Banks to monetise debts through measures such as maintaining artificially low target interest rates, implementing quantitative easing programs, and employing yield-curve control.

Financial repression involves maintaining nominal interest rates below the rate of inflation and it has historically been considered one of the less disruptive approaches to addressing a debt problem. Negative real interest rates can alleviate the burden on debtors.

To illustrate the impact of inflation, consider a scenario where inflation averages 3% per annum. In such a case, the real value of fixed-rate liabilities will gradually decline over time. For instance, over a 10-year period, the real value of these liabilities would decrease by approximately 26%, and over a span of 50 years, it could diminish by as much as 82%. This erosion of real value can provide relief to debtors and help manage the long-term debt burden more effectively.



Significantly, Gold doesn't need nominal rates to fall to perform strongly. In the 1970s, nominal rates rose, but real rates fell sharply and materially because the inflation spike outpaced the increase in nominal yields. Gold performed strongly as a result:

Otavio (Tavi) Costa @TaviCosta · Apr 18
 Replying to @TaviCosta
 Don't forget what happened in the 70s:
 Nominal yields trended higher and gold followed along almost perfectly.

The chart shows two data series from 1972 to 1980: Gold Spot price (left axis, \$/Oz) and US Generic Govt 10 Yr yield (right axis). Both series show a strong upward trend, with the US 10-year yield peaking at approximately 15% in 1980 and the Gold Spot price reaching over \$800 per ounce by the end of the period.

Source: Federal Reserve ©2021 Crescat Capital LLC

17 replies, 127 retweets, 521 likes

Low or negative real yields are nirvana for Gold and we expect policymakers will do whatever it takes to ensure this is how the debt super-cycle ultimately pans out over the coming years and decades.

And they appear to be on the right track.

The return of inflation?

“Inflation is the one form of tax that can be imposed without legislation” Milton Freidman

In the long run, echoing the views of economist Milton Friedman, inflation is fundamentally a monetary phenomenon. Sustained price increases tend to arise when there is an excessive growth of money supply orchestrated by Central Banks and this additional money finds its way into the broader economic system.

To anticipate strongly inflationary outcomes, we often observe several common signals:

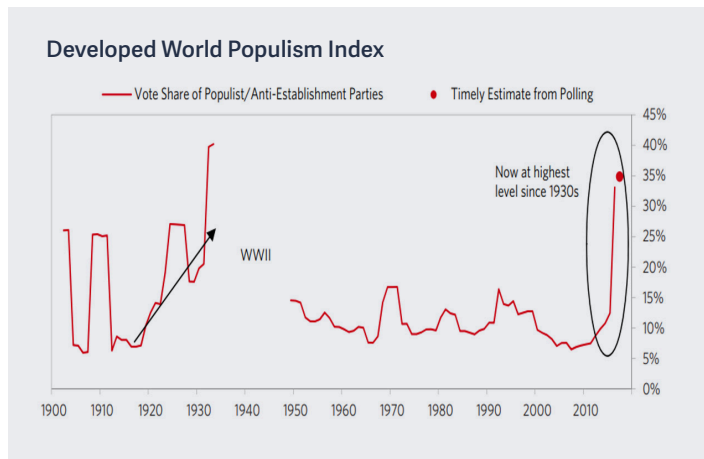
- **Massive Fiscal Deficits:** When governments run substantial fiscal deficits, often driven by increased spending or reduced tax revenues, it can contribute to inflationary pressures.
- **Disruptions to Supply Chains and Geography:** Events or conditions that disrupt established supply chains, whether due to geopolitical factors or natural disasters, can lead to supply shortages and higher prices.
- **Concerns over National Debts:** When there are concerns about a nation's overall financial health and its ability to meet its financial obligations, it can lead to inflationary pressures as policymakers consider various measures to manage the debt burden.

In recent years, global trends have underscored these inflationary impulses:

- The escalation of global indebtedness and income inequality has led to the rise of populist politics and a rejection of austerity measures.
- Trade protectionism has gained prominence, reshaping global trade dynamics.
- Distrust of globalisation has grown, leading to shifts in economic policies.
- Climate change is increasingly impacting established supply chains, causing disruptions.

All these factors, to varying degrees, contribute to inflationary pressures.

The rise of populist voting since the global financial crisis of 2008 has been remarkable in terms of its scale and speed. Populist support tends to be more prevalent in regions or countries where incomes have stagnated or declined.



Populist policies can have significant implications for price levels. Bridgewater's report titled “Populism: The Phenomenon” provides a comprehensive examination of populism, how it develops, matures and concludes.

Deflationary pressures often serve as a catalyst for populist support. Populist leaders, once in power, frequently implement policies that have inflationary consequences. The report emphasises the significance of inflation in the context of populism, mentioning "inflation" 35 times and "hyperinflation" 12 times, in contrast to "deflation," which is mentioned only 10 times.

Populist leaders have a consistent track record of making costly promises, devaluing the real value of debts and eroding the purchasing power of fiat currencies.

As prices decline and liabilities become more burdensome due to deflation, inflation can alleviate the stress associated with debt. Various stakeholders in society have a bias in favour of higher inflation:

- Borrowers benefit from inflation eroding the real value of their debts.
- Younger generations, given the high costs of housing and higher education, need wage inflation to improve their financial circumstances.
- Pension and insurance industries face solvency issues without inflation.
- Governments often seek inflation to reduce the real burden of their liabilities and maintain political stability.

These trends are observable in many major economies today and inflation has been on an upward trajectory.

Any other reasons to own Gold?

The precious metals asset class has its fair share of sceptics. Warren Buffett, widely regarded as one of the greatest ever investors and the founder of Berkshire Hathaway, succinctly captures a commonly held cynical view:

"[Gold] gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head." Warren Buffett

However, despite Gold's perceived lack of utility and absence of income yield, it has played a crucial and diversifying role in investors' portfolios over the past 50 years. Notably, it has also significantly outperformed cash and bonds during that period.

Since 1970, there has been a meaningful negative correlation in returns between the US stock market and Gold, especially during equity market downturns. Gold has outperformed in 11 out of 12 of the largest equity market drawdowns since 1973. Recent examples include the COVID-19 market crash in March 2020 and the sell-off triggered by inflation concerns in 2022. This historical performance underscores Gold's value as a portfolio diversifier and a potential hedge during times of market turbulence.

Performance of the S&P 500 vs. Gold During Equity Bear Markets

Date of the Market High	Date of the Market Low	S&P 500 Return	Gold Return	Gold Relative to S&P500
09/16/1929	06/01/1932	-86.19%	0.29%	86.48%
08/02/1956	10/22/1957	-21.63%	-0.11%	21.52%
12/12/1961	06/26/1962	-27.97%	-0.06%	27.91%
02/09/1966	10/07/1966	-22.18%	0.00%	22.18%
11/29/1968	05/26/1970	-36.06%	-10.50%	25.56%
01/11/1973	10/03/1974	-48.20%	137.47%	185.67%
11/28/1980	08/09/1982	-27.27%	-45.78%	-18.51%
08/25/1987	10/20/1987	-35.94%	1.38%	37.32%
07/16/1990	10/11/1990	-20.36%	6.81%	27.17%
07/17/1998	10/08/1998	-22.29%	1.71%	24.00%
03/24/2000	10/10/2002	-50.50%	11.18%	61.68%
10/11/2007	03/06/2009	-57.69%	25.61%	83.30%
09/21/2018	12/26/2018	-20.21%	5.59%	25.80%
02/19/2020	03/23/2020	-35.41%	-3.63%	31.78%
01/03/2022	10/12/2022*	-25.43%	-7.08%	18.35%
	Mean	-35.82%	8.19%	44.01%
	Median	-27.97%	0.29%	27.17%

Source: Cornerstone Macro, Bloomberg, Reuters Eikon (*Lowest closing price since 01/03/2022), Incrementum AG

Investors have not only benefited from the insurance aspect of holding Gold, but have also been rewarded with superior long-term returns compared to other major assets. For instance:

- In US dollar terms, since the end of 1999 until the end of July 2023, the US stock market returned 6.9% p.a., whereas Gold has delivered an impressive 9.3% p.a. return.
- For sterling investors, the UK stock market has provided a return of 4.6% p.a. during the same period, lagging behind Gold's substantial gain of 10.5% p.a. when measured in sterling.

These returns highlight the appeal of Gold as an investment, particularly during periods when equities experienced negative returns, such as in 2001-2002, 2008, 2011, and 2022. Gold has consistently demonstrated its ability to provide positive returns and serve as a store of value, making it a valuable component of diversified investment portfolios.

Gold Performance in Major Currencies, 2000-2023 YTD

Year	USD	EUR	GBP	AUD	CAD	CNY	JPY	CHF	INR	Average
2000	-5.3%	1.2%	2.4%	11.2%	-1.9%	-5.4%	5.8%	-4.2%	1.4%	0.6%
2001	2.4%	8.4%	5.3%	12.0%	8.8%	2.4%	18.0%	5.5%	5.8%	7.8%
2002	24.4%	5.5%	12.3%	13.2%	22.9%	24.4%	12.2%	3.5%	23.7%	17.9%
2003	19.6%	-0.2%	8.0%	-10.7%	-1.3%	19.6%	8.1%	7.4%	13.9%	7.2%
2004	5.6%	-2.0%	-1.7%	1.5%	-2.0%	5.6%	0.8%	-3.1%	0.1%	0.5%
2005	18.1%	35.2%	31.6%	25.9%	14.1%	15.1%	35.9%	36.3%	22.8%	26.1%
2006	23.0%	10.4%	8.1%	14.3%	23.3%	19.0%	24.2%	14.1%	20.7%	17.5%
2007	30.9%	18.4%	29.2%	18.0%	12.0%	22.5%	22.5%	21.8%	16.9%	21.4%
2008	5.4%	10.0%	43.0%	30.5%	28.7%	-1.5%	-14.2%	-0.8%	30.0%	14.6%
2009	24.8%	21.8%	13.0%	-1.6%	7.9%	24.8%	27.9%	21.1%	19.2%	17.6%
2010	29.5%	38.6%	34.2%	13.9%	22.8%	25.1%	13.2%	16.8%	24.8%	24.3%
2011	10.2%	13.8%	10.6%	9.9%	12.7%	5.2%	4.5%	10.7%	30.7%	12.0%
2012	7.1%	5.0%	2.4%	5.3%	4.2%	6.0%	20.7%	4.5%	11.1%	7.4%
2013	-28.0%	-30.9%	-29.4%	-16.1%	-23.0%	-30.1%	-12.6%	-29.8%	-19.1%	-24.3%
2014	-1.8%	11.6%	4.4%	7.2%	7.5%	0.7%	11.6%	9.4%	0.2%	5.6%
2015	-10.4%	-0.2%	-5.3%	0.6%	6.8%	-6.2%	-9.9%	-9.7%	-5.9%	-4.4%
2016	8.5%	12.1%	29.7%	9.4%	5.3%	16.1%	5.4%	10.3%	11.4%	12.0%
2017	13.1%	-0.9%	3.3%	4.6%	5.9%	6.0%	9.0%	8.3%	6.3%	6.2%
2018	-1.5%	3.0%	4.3%	9.0%	6.8%	4.1%	-4.2%	-0.8%	7.3%	3.1%
2019	18.3%	21.0%	13.8%	18.7%	12.6%	19.7%	17.2%	16.6%	21.3%	17.7%
2020	25.0%	14.7%	21.2%	14.1%	22.6%	17.2%	18.8%	14.3%	28.0%	19.5%
2021	-3.6%	3.6%	-2.6%	2.2%	-4.3%	-6.1%	7.5%	-0.6%	-1.7%	-0.6%
2022	-0.2%	6.0%	11.6%	6.3%	7.0%	8.3%	13.7%	1.1%	10.8%	7.2%
2023 YTD	7.7%	4.8%	1.5%	9.2%	4.8%	11.5%	16.8%	1.5%	7.0%	7.2%
Average	9.3%	8.8%	10.5%	8.7%	8.5%	8.5%	10.5%	6.4%	11.9%	9.2%

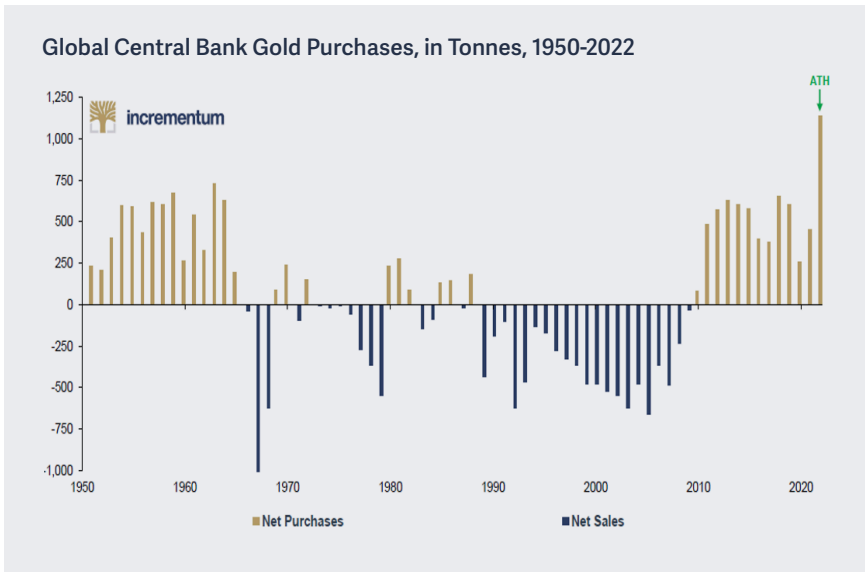
Source: Reuters Eikon (as of July 31st, 2023), Incrementum AG

Who are the major buyers/users of Gold?

Central Banks

Central Banks have traditionally been major purchasers of Gold, holding it as a crucial component of their monetary policy and a safeguard for financial stability. Gold serves multiple purposes for Central Banks:

- **Currency Devaluation Hedge:** Gold provides a hedge against the devaluation of national currencies.
- **Crisis Insurance:** Central Banks view gold as a form of insurance against economic crises and financial instability.
- **Diversification:** Gold offers diversification benefits to Central Banks' overall asset portfolios.
- **Geopolitical Considerations:** In recent years, driven by rising geopolitical tensions and concerns about the stability of Western government bonds, Central Banks have actively increased their gold holdings at the expense of traditional "safe haven" sovereign debt.



Source: World Gold Council, Incrementum AG

Who are the major buyers/users of Gold?

Gold indeed plays a crucial role in various industries, particularly technology. Its unique properties make it indispensable in several applications:

- **Electronics:** Gold's exceptional electrical conductivity and resistance to corrosion make it a preferred material for various electronic components, including connectors, switches, and integrated circuits.
- **Dentistry:** Gold alloys have been used in dentistry for decades as dental crowns, bridges, and other restorative applications.
- **Aerospace:** The aerospace industry relies on gold coatings and plating for their ability to protect critical components from extreme temperatures and corrosive environments.

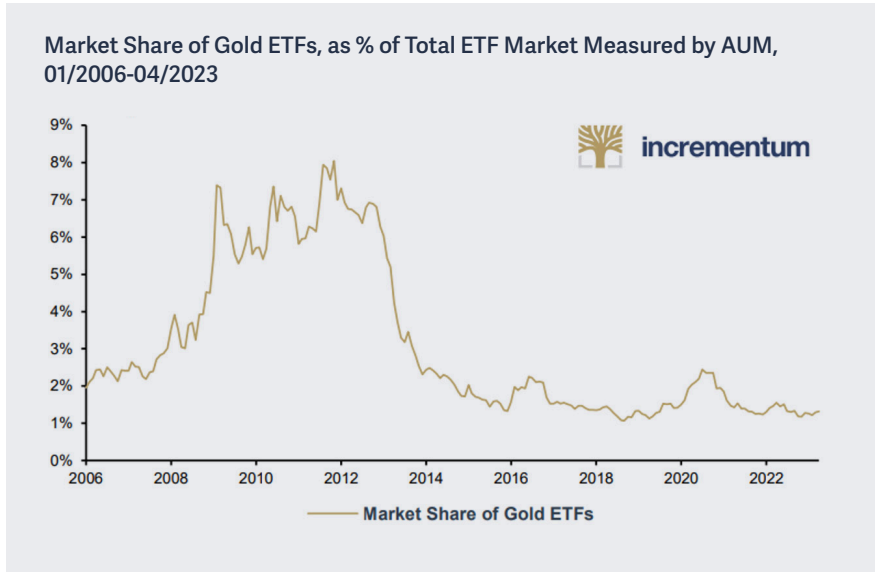
Jewellery

Gold's appeal as a form of jewellery has spanned centuries. It holds deep cultural significance in many societies, either as a symbol of social status or a form of wealth preservation for families passing their assets through generations.

Investors

The accessibility and popularity of Gold among individual and institutional investors have been significantly enhanced by several key developments:

- **Safe Haven and Diversification:** Gold has long been favoured by investors for its role as a safe haven asset and portfolio diversifier, offering a hedge against economic uncertainties and market volatility.
- **Krugerrand Introduction (1967):** South Africa's introduction of the Krugerrand in 1967 marked a pivotal moment in the Gold market. It became the world's first modern Gold bullion coin, making Gold more accessible to private investors and collectors globally.
- **Gold Exchange-Traded Funds (ETFs) (2003):** The launch of the first Gold ETF, the SPDR Gold Trust (GLD), in 2003 revolutionized the Gold market. Gold ETFs allow investors to buy and sell shares backed by physical Gold. This innovation provides a convenient and cost-effective way to gain exposure to the precious metal without the need to own and store physical bullion directly in a bank vault. The introduction and widespread adoption of Gold ETFs have had a profound impact on gold prices despite a decrease in Gold's share as a percentage of total ETF assets over the past decade (see chart below). Any increase in this ratio has the potential to significantly boost the gold price, underscoring the significance of Gold ETFs in influencing Gold market dynamics.



Source: Topdown Charts, Incrementum AG

How best to own Gold bullion: Paper vs Physical?

The prevalence of derivatives, particularly futures contracts, in the Gold market is noteworthy. These derivatives essentially represent claims on Gold, with the buyer typically having the right to purchase physical Gold. However, it's important to understand that these contracts are often not fully backed by physical Gold.

In fact, around 99c of every \$1 claim on Gold is conducted via derivative contracts, meaning the majority of trading and investment takes place via financial or "paper" instruments rather than direct ownership of physical Gold.

The scale of these "paper" claims on Gold underscores the significant leverage created by the modern financial system and means the perceived ownership of gold bullion far exceeds the amount of actual physical Gold in existence.

In some instances, futures contract investors exercise their contractual right to take physical delivery of Gold upon contract expiration. To do so, they must post a significantly larger amount of additional capital beyond the initial margin. This process has led to record levels of physical Gold delivery, highlighting a disconnect between perceived ownership and physical availability.



The potential for a significant number of Gold futures holders to demand physical delivery simultaneously, particularly from major bullion banks like JPMorgan and HSBC, can create a situation resembling a bank run in the bullion banking sector.

Just like in a bank run, if too many Gold future holders decide to take delivery of gold at the same time (rather than rolling contracts), it's likely the swap dealers won't be able to satisfy all those demands (sufficient Gold isn't available). If so, then this will be one of those 'rare' occasions...when the market enters into one of their occasional parabolic price moves", Longview Economics

The highlights the fragility of the "paper" Gold market and introduces a notable risk for retail and institutional investors that own derivative-based ETFs or the physically-backed versions backed by the major bullion banks. During times of market stress, there is a risk of such contracts being halted or cancelled, as was the case in the London Nickel market in 2022.

Business

LME forced to halt nickel trading, cancel deals, after prices top \$100,000

By Eric Onstad

March 8, 2022 5:33 PM GMT · Updated 2 years ago

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In extremis, this could render the holder's investment in Gold bullion as worthless; an obvious irony given Gold's role as a hedge against systemic financial risks.

Royal Mint Responsibly Sourced Gold ETC

We take this counterparty risk seriously and, as a result, typically own physical Gold for clients in the Royal Mint's Responsibly Sourced Gold ETC. Gold bars are custodied in the Royal Mint's vault in Llantrisant (Wales). The Royal Mint is owned the UK government and has been responsible for producing the coinage of the United Kingdom, and other nations, for over 1,000 years. We visited the site in 2022:



The Royal Mint distinguishes itself by providing a higher degree of security compared to other Gold bullion funds in several key ways:

- **Non-Bullion Bank Vault:** The Royal Mint and its vault operate independently of the bullion banking system. It stands as the first Gold ETC established in partnership with a European Sovereign Mint, thereby avoiding vulnerabilities associated with the extensive financialisation of the paper Gold market.
- **Secure Location:** The vault is strategically situated outside of London (in the Welsh hills) within a flood and nuclear-proof underground facility, known as one of the most secure locations in the United Kingdom.
- **Custody Assurance:** The ETC's Gold holdings are physically-backed with a one-for-one allocation of Gold bars. They undergo regular audits conducted by third-party entities to ensure transparency and accountability.
- **Redeemability:** Investors in the ETC have the option to redeem their Gold bars and coins if they desire to take physical delivery of their assets.
- **Responsible Sourcing:** The Royal Mint's Gold ETC sets high standards for responsible sourcing. It is the first ETC whose Gold bars are 100% compliant with the London Bullion Market Association's (LBMA) 2019 Responsible Sourcing guidelines, representing the highest responsible sourcing standard available. Additionally, a portion of the Gold held by the ETC is sourced from 100% recycled Gold bars, making it the first ETC to embrace such sustainable practices. Recycled Gold is known to have a lower carbon footprint than mined Gold. Furthermore, in response to the 2022 Russian invasion of Ukraine, all Gold bars of Russian origin were removed from the ETC.

Silver

"Gold is the money of kings, Silver is the money of gentlemen, barter is the money of peasants, but debt is the money of slaves."

Norm Franz

Whilst the majority of our precious metals exposure typically comes from Gold bullion and the related mining stocks, we are alert to the fact Silver typically performs more strongly than Gold during bull markets (and vice versa).

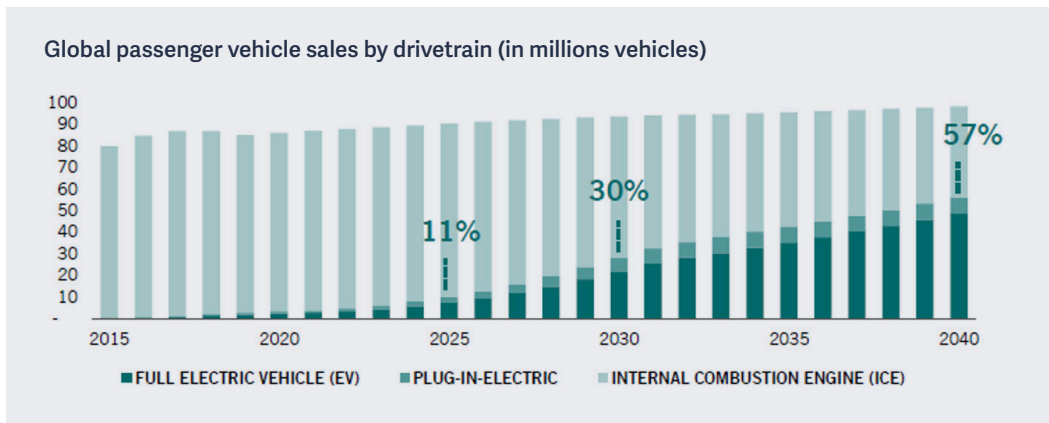
Like Gold, Silver no longer plays a formal monetary role in the world's major economies, but it offers similar "store of value" characteristics and is highly prized for its superior electrical conductivity and antibacterial properties. These make it an essential input into a wide range of "green" and tech applications, particularly in semiconductor manufacturing, solar panels and electric vehicles, all of which are seeing surging volume growth.

Indeed, the global shift toward sustainable and green technologies is driving increased demand for Silver, adding weight to the argument a major and prolonged bull market in precious metals markets lies ahead.

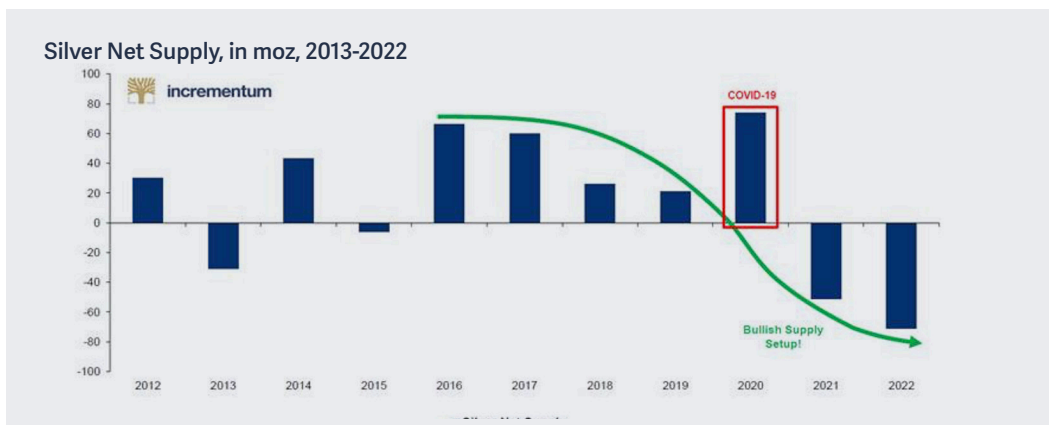
According to the International Energy Agency (IEA), solar panel technology accounted for 13% of total Silver demand in 2021 and grew by 28% in 2022. The World Silver Survey expects solar demand to grow 15% in 2023 with similar rates of growth occurring over the next decade.

For the world to meet its mandated net zero carbon emission targets by 2050, solar power generation will need to grow an average 25% each year until 2030. Were this to occur, demand for Silver from solar panels would rise sevenfold from its 2021 level.

Another notable source of growing Silver demand stems from Electric Vehicles (EVs) & hybrids, where Silver content is typically twice the level needed in an equivalent internal combustion engine (ICE) vehicle. As depicted in the chart below, the share of miles driven by EVs has experienced substantial growth, reaching approximately 10% in 2023. This trend underscores the increasing importance of Silver in the automotive industry, particularly as the adoption of electric vehicles continues to surge.



As demand for Silver is poised to experience robust growth, the supply of Silver is set to simultaneously decline. A capital expenditure squeeze over the past decade (exacerbated by the near-collapse of many Silver mining companies during the 2011-2016 bear market) and the depletion of easily-accessible global deposits collectively serve as significant headwinds to supply.



Source: Silver Institute, Metals Focus, Incrementum AG

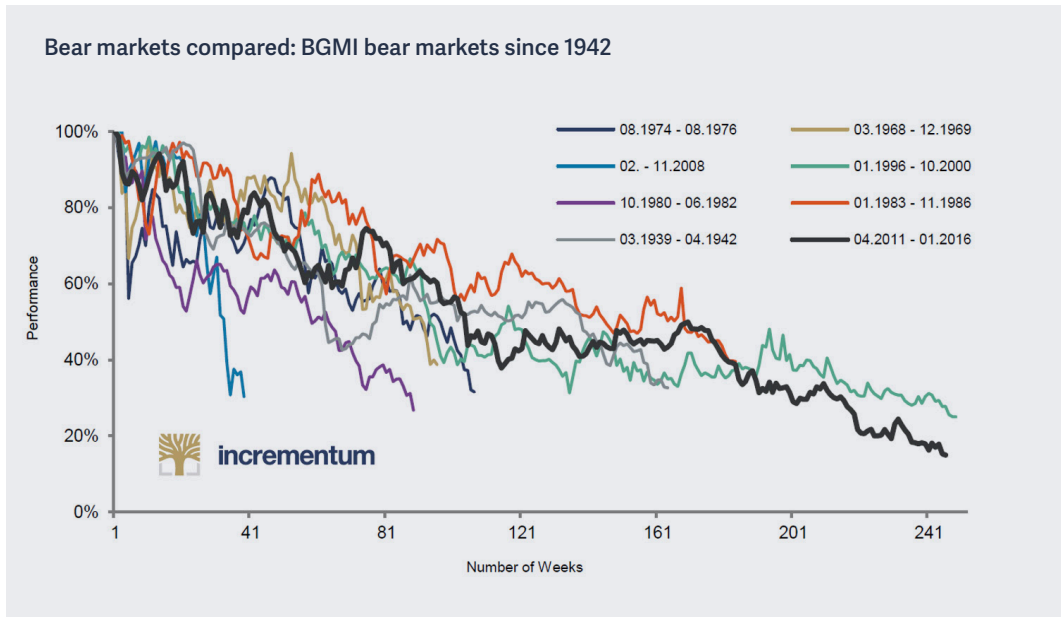
What about Gold & Silver Mining Stocks?

Whenever we adopt a bullish stance on Gold and Silver bullion we naturally consider an allocation to Gold and Silver mining stocks as they offer the potential for leveraged returns during precious metals bull markets.

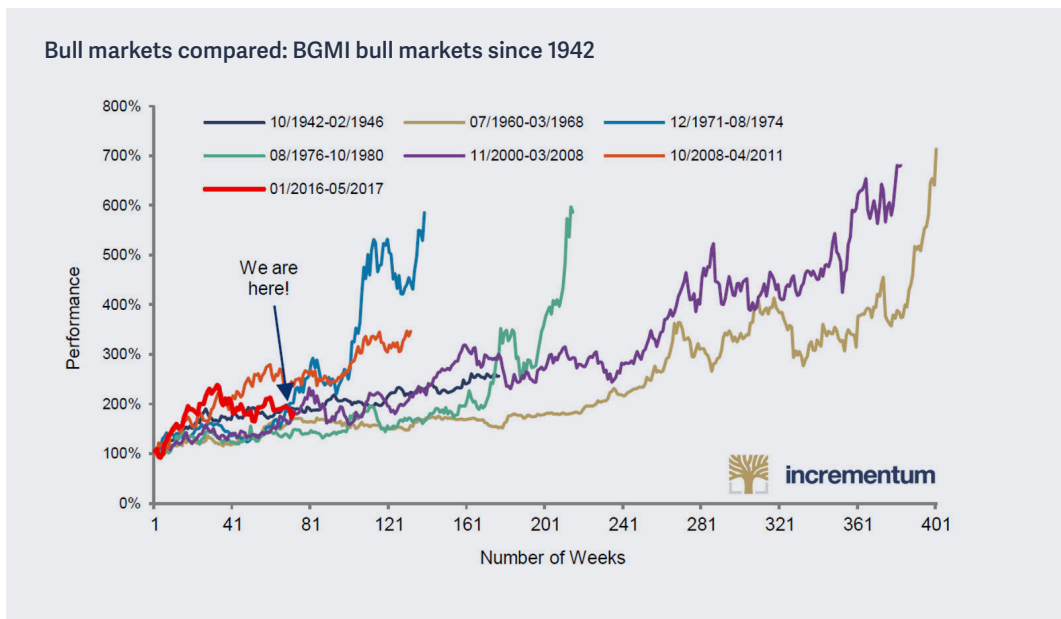
Mining stocks tend to amplify the price movements of the underlying metals, potentially delivering higher returns. However, the associated risks are greater and may include operational and geopolitical factors that typically lead to outsized stock price volatility. Additionally, the performance of mining stocks can be influenced by factors beyond the metals' prices, such as company-specific management decisions and production challenges, making due diligence and diversification crucial when investing in this sector.

Throughout its history, the precious metals mining industry has been characterised by distinct boom and bust cycles.

On the downside, prior bear markets have resulted in significant losses. As illustrated in the chart below, which details all bear markets in the Barons Gold Mining Index (BGMI) since 1942, peak-to-trough declines exceeding 50% are common during major downturns. In fact, the most recent bear market, occurring between 2011 and 2016, marked the longest and deepest on record.

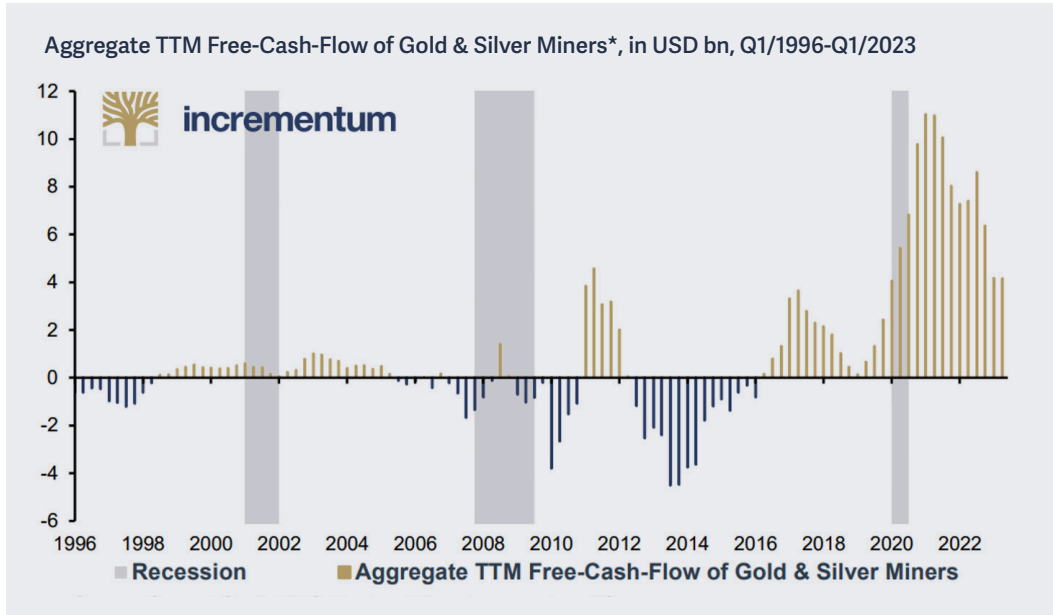


On the flipside, it's important to highlight the historically marked outperformance of Gold and Silver mining stocks during bull markets. As this mid-2017 chart shows, trough-to-peak gains of 4-5x are quite normal during precious metals upswings. We believe the bull market that began in 2016 is still ongoing today.



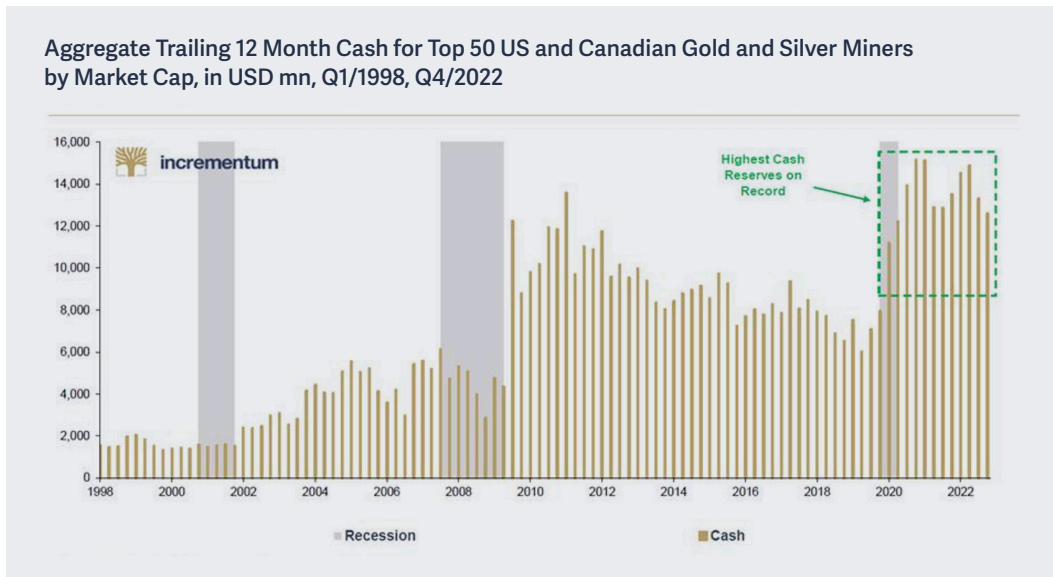
Source: Nowandfutures, TheDailyGold.com, Barrons Incrementum AG

The severity of the 2011-16 bear market in the gold mining industry saw several companies go bust and most others forced to significantly change how they manage their operations and balance sheets. Cash flow generation within the sector turned negative in 2012 and remained so for the next four years.

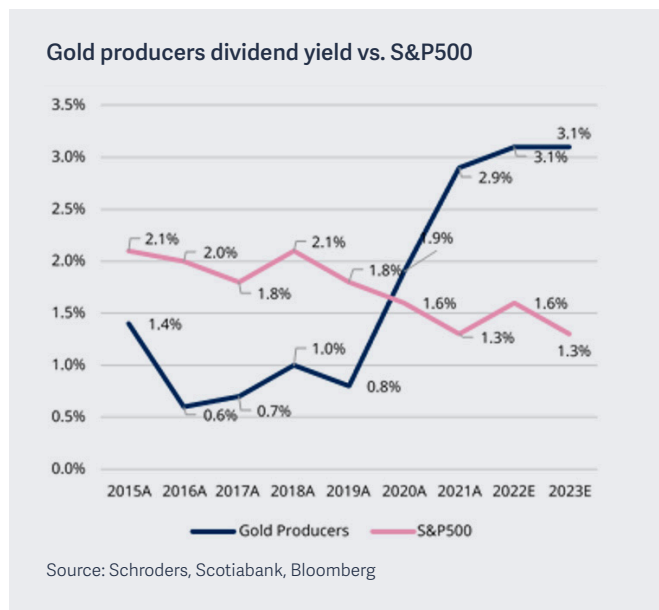
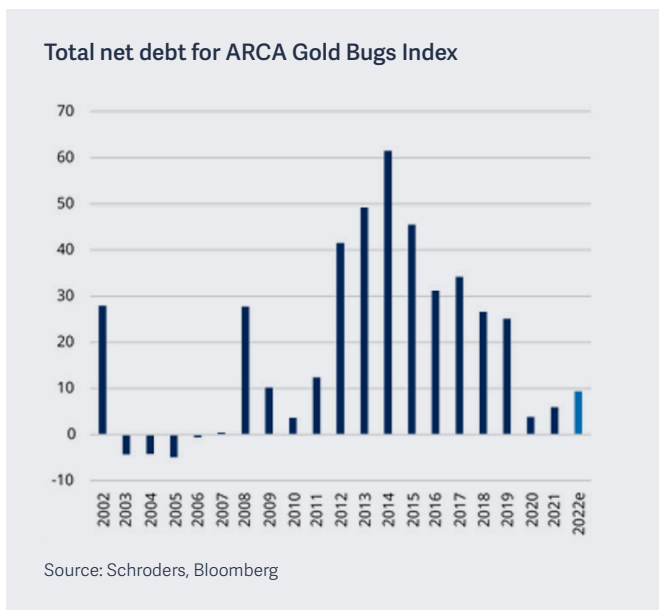


The repercussions of this bear market had a lasting impact on the sector. In response, poor management teams were replaced, cost bases were significantly reduced and there is now a heightened level of discipline surrounding M&A activity. In short, the “survivors” have much healthier balance sheets that help them better navigate any intervening pullbacks in precious metals prices.

Indeed, 2023 looks set to be a record 8th consecutive year of positive, free cash flow generation across the sector, which takes total cash reserves to a record high.



Importantly, in contrast to the record levels of leverage observed across the broader corporate sector, Gold Miners have little debts to service and offer an above-market dividend yield.



When it comes to investing in Gold Miners, our preference typically lies with active managers as opposed to passive index tracking. Active managers usually provide access to higher-quality mining companies and offer superior portfolio diversification, often steering clear of listings in jurisdictions with elevated political risks.

For context, the FTSE Gold Mines index has a combined 52% weighting in just 3 stocks (as at October '23). This concentration risk is notably high, particularly given the inherent volatility of the asset class.

Top 10 Constituents

Constituent	Country	ICB Subsector	Net MCap (USDm)	Wgt %
Newmont Corporation	USA	Gold Mining	31,315	19.89
Barrick Gold	Canada	Gold Mining	28,379	18.02
Agnico Eagle Mines	Canada	Gold Mining	22,186	14.09
Newcrest Mining	Australia	Gold Mining	15,062	9.56
Gold Fields	South Africa	Gold Mining	11,283	7.17
Northern Star Resources	Australia	Gold Mining	8,666	5.50
Anglogold Ashanti	South Africa	Gold Mining	7,145	4.54
Kinross Gold	Canada	Gold Mining	6,212	3.94
Alamos Gold	Canada	Gold Mining	5,023	3.19
Evolution Mining	Australia	Gold Mining	4,147	2.63
Totals			139,419	88.53

Our preferred active Gold Mining funds typically maintain individual stock positions below 5%, providing a higher degree of diversification. The top 10 holdings from Baker Steel's Precious Metals funds, as at the end of August 2023, was as follows:

Top 10 Holdings		% NAV	
Pan American Silver	5.2%	Fresnillo	4.3%
Kinross Gold	5.1%	Equinox Gold	4.3%
B2Gold	4.7%	Centerra Gold	4.1%
OceanaGold	4.6%	Harmony Gold Mining	4.0%
Newcrest Mining	4.4%	SSR Mining	4.0%

We believe it is prudent to avoid investing in mining companies operating in the most speculative jurisdictions, where local authorities have a history of imposing windfall taxes on miners and, in extreme cases, nationalising their assets.

Gold Miners Ordered to Sell 20% of Refined Bullion to Ghana

- Ghana will buy gold from companies in domestic currency
- Cedi dropped 57% this year, making it world's worst performer

Hochschild Mining PLC [+ Add to myFT](#)

Hochschild shares drop by a third after Peru seeks to shut mines

London-listed group vows to fight government move and insists projects meet best environmental standards

Kyrgyzstan faces international legal battle over gold mine

Canadian company Centerra Gold files arbitration suit to stop Bishkek from nationalising Kumtor

As a result, our focus is on Gold Mining funds that concentrate on higher quality miners operating in less risky jurisdictions. We believe this is a prudent approach to risk management within a highly volatile yet potentially highly rewarding sector.

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