THE PERTH MINT
AUSTRALIA

Why are SMSF trustees investing in gold?

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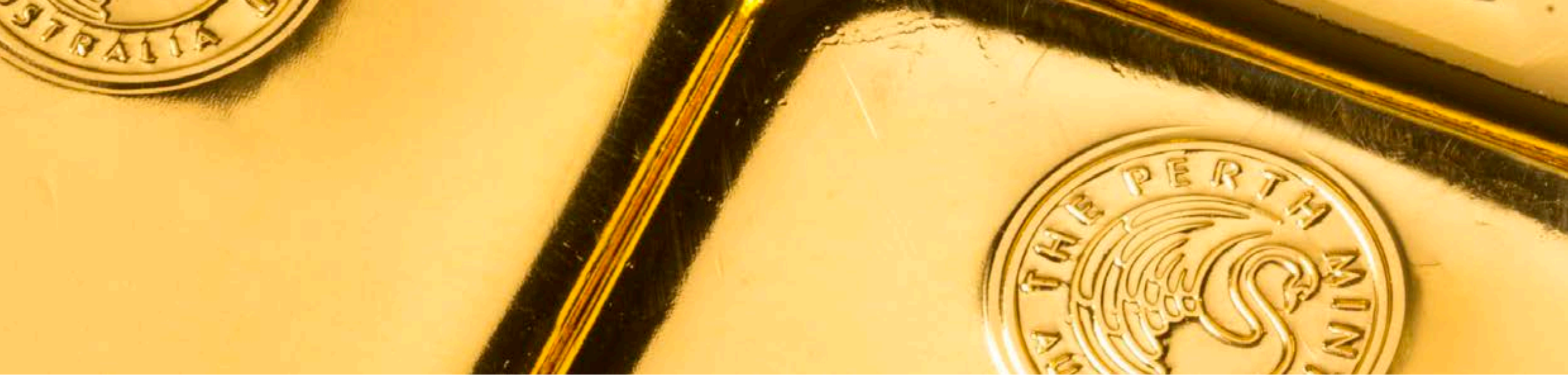


Introduction: Why investors are turning to gold.

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 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.

While listed equities, cash (including term deposits) and property comprise the majority of assets held by SMSF trustees, 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 below USD 300 per troy ounce (oz) to over USD 1,800 oz since the year 2000. In Australian dollar terms, the price has risen from below AUD 450 oz to more than AUD 2,450 oz over the same period.

This has seen gold generate returns of 522% (9.1% per annum) in US dollar terms and 460% (8.5% 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 of the growing demand for precious metals.

Our unique government guaranteed depository now holds more than AUD 6 billion in physical precious metals for more than 70,000 clients including SMSF trustees, central banks, sovereign wealth funds and institutional investors.

In this white 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 SMSF trustees as they seek to build and protect wealth.
- What to look for when investing in precious metals.

Market history and gold.

Market history is unambiguous. In times of high inflation and/or stagflation, gold is by far 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 gains of 15.1% (in nominal terms), and 8.3% in real terms in the years US CPI has averaged 3% or more.

For local investors, the numbers are just as impressive, with analysis conducted by The Perth Mint suggesting the gold price in Australian dollars has on average risen by just over 20% in nominal terms in years local CPI was 3% or higher. This can be seen in the table below.

Australian inflation and average gold price returns (%) 1971 to 2021

Inflation environment	Number of years inflation in this bracket	Average nominal gold return (%)
Less than 3%	27	3.6%
More than 3%	23	20.4%

Source: The Perth Mint, Australian Bureau of Statistics, World Gold Council

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

A World Gold Council study of multiple asset classes since the 1970s during periods of stagflation, which was published in 2021, found gold was the highest performer, delivering annualised average adjusted returns of more than 30%.

It is, of course, important to note that the market leading returns are average, or historical returns in past periods of high inflation and/or stagflation. Gold can and likely still will see the occasional correction in periods consumer prices have risen sharply.

These periods, however, tend to be the exception that proves the rule, with market history making it clear that in times of high inflation and/or stagflation, gold has been by far the best performing single asset class investors can own.

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

There are several reasons this may be so, including:

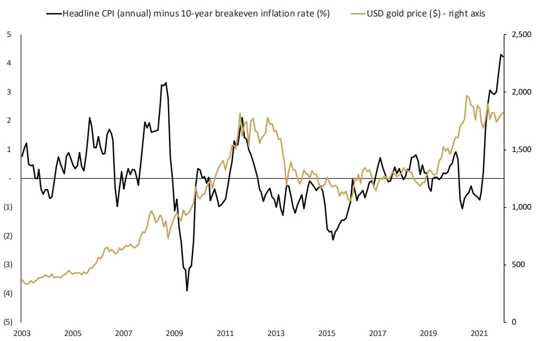
- The challenges caused by COVID-19, including efforts to minimise the spread of the disease, have wreaked havoc on global supply chains, which will take time to resolve.
- Onshoring will be a key theme for the next few years, as the fragility of global supply chains exposed by the pandemic encourages 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.
- Market cycles, with annual average US CPI growth in the decade to end 2020 just 1.73%. That's the lowest for any 10-year period since the 1960s, less than half the average increase in CPI over that entire period and likely marks the culmination of four-decades of declining CPI growth.

Finally, it has to be noted that the market has not priced in higher long-term inflation at all, even though official CPI figures topped 7% at the end of 2021.

This is evidenced by the fact five-year break-even inflation rates ended 2021 at just 2.87%, while 10-year break-even inflation rates were below 2.60%.

This pricing leaves the market with the largest gap in 20 years between current CPI rates (7%) and 10-year break-even inflation rates on record, as the chart below highlights.

Gap between current CPI rates and 10-year break-even inflation rates 2003 - 2021



Source: The Perth Mint, St Louis Fed, Bureau of Labor Statistics

The only other time we've seen anything like this was back in 2008 when there was more than a 3% gap between the headline CPI rate, and the 10-year break-even inflation rate.

Back then, gold went through a corrective period, falling by 20% at one point. History shows that corrective cycle ended with an explosive move to the upside, with gold rallying by more than 150% in the three years that followed.

Given this history, and the fact there is plenty of room for CPI growth to fall from current levels yet still overshoot current market expectations, there are multiple reasons to think the inflation dynamics at play in the market today will ultimately lead to higher gold prices in the years ahead.

Why are SMSF trustees investing in gold?

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

Many SMSF trustees are opting to allocate 5-10%, and in some cases more of their portfolio to the metal. In this section we cover the five key reasons investors may wish to include gold in their portfolio.

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.

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.

Asset class returns (%) over multiple time periods to end 2021

Asset Class	1 year	3 year	5 year	10 year	15 year	Since end 1999
Gold	2.1	11.2	9.5	5.3	7.9	8.2
Australian shares	17.2	13.6	9.8	10.6	6.2	8.4
Cash	0.0	0.5	1.1	1.9	3.1	3.8
Bonds	-2.9	2.9	3.4	4.2	5.2	5.6
Median superannuation fund (growth strategy)	13.4	10.5	8.5	9.4	6.3	6.8

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

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 almost 9% per annum since the start of the 1970s.

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

2. Market leading performance in low interest rate environments

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, including SMSF trustees, 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 table below which highlights the returns for gold, in both nominal and in real terms, noting that in Australia there have been 27 years when real interest rates were 2% or higher and 23 years when they were 2% or lower since 1971.

Real cash rate environments and average asset returns (%) – 1971 to 2021

Real interest rate environment	Number of years	Years gold rose	Nominal gold return	Real gold return
Below 2%	24	20	19.7	13.9
Above 2%	27	17	4.3	-0.1

Source: The Perth Mint, Australian Bureau of Statistics

The data tells us that when real interest rates are above 2%, gold recorded an average annual increase of 4.3% in nominal terms, with the precious metal essentially flat in real terms.

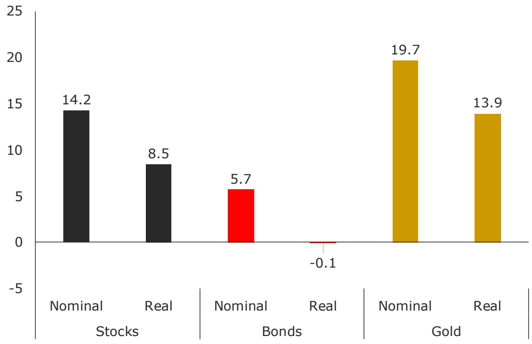
Real interest rates are calculated by subtracting the official inflation figure from the RBA cash rate. As an example, if the RBA cash rate was 8%, and annual inflation was 5%, then the real interest rate would be 3%. If the RBA cash rate was 2% and annual inflation 3%, the real interest rate would be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

However, in years when the real interest rate was below 2%, the price of gold rose by an average of almost 20% in nominal terms and by almost 14% in real terms. Based on this metric, gold has also displayed an 83% "success" rate, with the price rising in 20 of those 24 years.

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.

The chart below highlights this, illustrating the average annual returns (both real and nominal) for Australian stocks, bonds and gold during years when real interest rates were below 2%.

Average annual asset class returns (%) when real cash rates were below 2% - 1971 to 2021



Source: The Perth Mint, Reuters, World Gold Council, Australian Bureau of Statistics

Two 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, as has been the case for the last two years given the threat posed by COVID-19. In such environments it's natural that investors adopt a more defensive approach, seeking out safe haven assets such as gold.
- If the real interest rates investors like SMSF trustees can earn from cash or short-term bonds are low, or even negative, like they are today, then the opportunity cost (in terms of income foregone) of investing in gold is significantly reduced or completely eliminated.

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

3. 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.

A look back at the performance of gold and the local equity market in Q1 of 2020 is a good example of this. Back then, the ASX 200 suffered an almost 30% decline in one month as fears over COVID-19 and the measures taken to limit its spread, caused a huge decline in economic activity. Over the same period, the price of gold in Australian dollars rallied more than 20%, 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 50 years, with the precious metal typically serving as an excellent hedge against falling equity markets. Indeed, historical studies highlight the fact that gold has typically outperformed all other 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.

Average quarterly 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	-19.1	3.9	5.9	-10.3	4.2

Source: AQR Capital Management, Good strategies for tough times, Q3 2015

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 also makes it clear that gold was the highest performing single asset class, delivering returns averaging 4.20% during the quarters equities fell fastest.

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

The table below highlights the same calendar quarters in which 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.

Average quarterly returns (%) for Australian asset class returns when Australian equities suffer their largest quarterly falls				
Asset Class	**Equities**	**Bonds**	**Cash**	**Gold (AUD)**
Average of 10 worst quarters	-15.0	5.5	1.8	8.8

Source: The World Gold Council, Reuters, The Perth Mint

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 the quarters that global equities fell, Australian shares also fell significantly.

As a result, while 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.

How about when equities rise?

Gold has historically generated positive returns in periods equity markets are rising. The table below, which uses market data from 1971 to 2021 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 table is telling us that:

- The average gain for equities in the months when equities rose was +3.9%, and in those months equities rose the average return on gold was +0.8%.
- The average loss on equities in the years when equities fell was -14.7%, and in those years equities fell the average return on gold was +15.7%.

Average gold and equity returns (%) when equities fall and when equities rise – 1971 to 2021

Market environment	Time period	Equities	Gold
Equities rising	Monthly	3.9	0.8
	Quarterly	7.7	2.2
	Yearly	22.1	10.3
Equities falling	Monthly	(3.6)	1.0
	Quarterly	(6.7)	3.8
	Yearly	(14.7)	15.7

Source: The Perth Mint

Gold's historical ability to increase in value alongside rising equity markets is another reason to consider the benefits of holding the precious metal in a portfolio.

Australian gold investors often benefit from declines in the value of the local currency that often coincide with rising gold prices and falling equity markets.

4. 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 that 4% rise in the US dollar gold price, 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.

Since the turn of the century, this correlation whereby declines in the equity market coincide with falls in the value of the Australian dollar has seen the local currency fall 60% of the time the ASX does, measured using monthly returns. The average decline in the value of the Australian dollar in these months was just over 3.5%. In the months the Australian dollar rises when the ASX fell (which has happened 40% of the time), its average increase has been just 2.6%

This currency effect has been worth almost 1.2% in terms of the enhanced portfolio returns Australian investors would get from holding gold in months equities have declined. This can be seen in the table below.

Average monthly US and Australian dollar gold price returns (%) in months equities fall – 2000 to 2021.

	Average monthly return
Average US dollar gold price return	0.82%
Average Australian dollar gold price return	2.01%

“Simplicity is the ultimate sophistication.” – Leonardo Da Vinci

5. 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.

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

c. Low cost and liquid

Daily turnover in the gold market typically averages in excess of USD 150 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) and trading spreads 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 and trading spreads for PMGOLD, The Perth Mint's ASX listed gold product.

Management expense ratios and trading spreads for ETFs		
Asset Class	**Average management fee (% per annum)**	**Average spread (% per trade)**
Currency	0.82	0.23
Infrastructure	0.68	0.24
Global Equities - Asia/EM/Sector	0.68	0.27
Commodities (ex gold)	0.64	0.35
Australian Equities	0.63	0.27
Average of all ETFs	0.53	0.22
Property	0.46	0.17
Fixed Income - Global	0.42	0.22
Mixed Asset	0.36	0.20
Global Equities	0.29	0.12
Fixed Income - Australia	0.25	0.12
Australian Equities - large cap	0.21	0.08
PMGOLD	0.15	0.09

Source: The Perth Mint, ASX October 2021 investment products monthly update

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 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 2021 SPIVA (Indexed Versus Active) Australia Scorecard, 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 2021.

Percentage of funds outperformed by their respective benchmarks 2006 - 2021						
Report 1a: 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	44.3	75.9	75.7	80.8	85.8
Australian Equity Mid - and Small-Cap	S&P/ASX Mid-Small	35.0	49.6	65.3	55.1	50.0
International Equity General	S&P Developed Ex-Australian LargeMidCap	54.6	78.1	81.9	90.6	94.8
Australian Bonds	S&P/ASX Australian Fixed Interest 0+ Index	29.9	67.2	70.2	85.5	83.1
Australian Equity A-REIT	S&P/ASX 200 A-REIT	58.5	56.7	56.5	78.8	78.8

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2021. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Perfroemance Disclosure Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

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.

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.

The following chart and table help put the volatility of gold in its appropriate context and explains why it should not necessarily stop anyone from using the precious metal 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 returns for gold, and for equities between 1971 and 2021, as well as 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

Investment	Gold	Equities	50/50 Portfolio
Worst month	-20.3	-42.1	-17.3
Best month	29.4	18.8	22.4
Worst quarter	-22.7	-40.7	-18.8
Best quarter	53.9	28.0	34.8
Worst year	-28.9	-40.4	-20.8
Best year	153.3	66.8	94.3
Annualised volatility	20.3	17.4	13.4

Source: The Perth Mint

A few things stand out looking at the above table:

- The best gains for gold over a month (+29.4%), quarter (+53.9%) and year (+153.3%) were much better than the corresponding best month (+18.8%), quarter (+28.0%) and year (+66.8%) for the equity market.
- The worst losses for gold over a month (-20.3%), quarter (-22.7%) and year (-28.9%) were dwarfed by equity market losses in their worst month (-42.1%), quarter (-40.7%) and year (-40.4%).

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. The annualised volatility for equities is 17.4%. This drops to just 13.4% in the 50/50 blended portfolio example.

Importantly, gold also helped to significantly reduce worst-case losses, with the biggest monthly, quarterly and annual declines for the 50/50 blend of gold and equities -17.3%, -18.8% and -20.8% respectively. These declines are substantially less severe than the drawdowns pure equity market investors have had to endure since the beginning of the 1970s.

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 accessability has fuelled demand from astute investors worldwide. This includes SMSF trustees in Australia"

The topics and data discussed in this white paper offer insights into why many investors, including a growing number of SMSF trustees, are making allocations to gold in their portfolios.

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 outperformance 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 15% in years inflation rates have been 3% or higher.
- **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 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.

A spotlight on silver.

Given silver often outperforms during precious metal bull markets, one can understand why investors are adding it to their portfolios today, especially as history suggests that relative to gold, silver remains undervalued.

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.

This can be seen in the table below, which highlights the major categories of global physical silver demand, as well as a total demand figure.

Note that the figures for 2021 are forecasts (f) at this stage, as final data for the end of the year was not available at the time this report was published.

Global physical silver demand - millions of ounces 2012 - 2021

Year	Industrial	Jewellery	Net physical investment (i.e. bars & coins)	Total demand
2012	451	159	242	985
2013	461	187	302	1071
2014	450	193	285	1025
2015	457	202	313	1070
2016	492	188	214	997
2017	519	195	156	966
2018	513	202	166	990
2019	515	200	186	995
2020	487	149	201	896
2021 (f)	524	184	253	1033

Source: The Silver Institute, World Silver Survey 2021

Net physical investment for bars and coins at just 201 million ounces in 2020, accounted for a little over 20% of total physical silver demand. This is in line with its average share of total demand over the last decade.

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 in 2021 is estimated to be 437 million ounces. That is only slightly more than 40% of total demand.

By contrast, purchases for gold jewellery, bars and coins, as well as investments into gold ETFs, generally represent 85–90% of total physical demand in any given year.

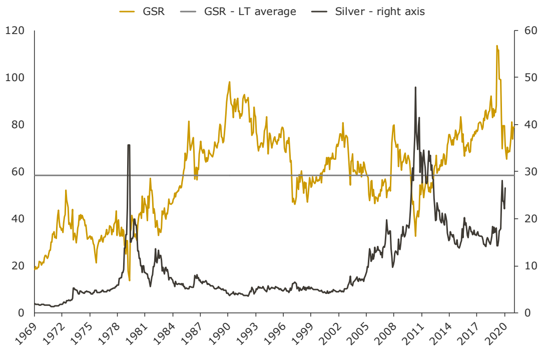
Silver's dual role as both a monetary and industrial metal, is the primary reason it is more volatile than gold, with prices typically increasing and decreasing more rapidly than the gold price.

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. The years to come may be one such period, as history suggests that silver remains cheap relative to gold.

The best way of visualising this is by looking at the gold to silver ratio (GSR), which measures how many ounces of silver you could buy with one ounce of gold.

This can be seen in the chart below, which shows how the GSR has moved over time, as well as the long-run average GSR, and movements in the price of silver itself.

GSR and price of silver (per troy ounce) 1969 to 2021



Source: Reuters, World Gold Council, The Perth Mint

A few things stand out when looking at the above chart.

- The end 2021 GSR of 79 was high by historical standards, with the long-run average GSR just 58.
- The GSR has often fallen as low as 20 or 30 at the top of previous bull markets in precious metals, including 1980 and 2011.
- A declining GSR (which means silver is outperforming gold), often coincides with a rise in both gold and silver prices.

Price movements between May 2003 and August 2011 are a perfect example of the last bullet point above, where a falling GSR is part of a strong bull market in both gold and silver. This is highlighted in the table below.

Gold price, silver price and GSR in May 2003 and April 2011

Date	Gold price (USD)	Silver price (USD)	GSR
May 2003	364.6	4.52	81
April 2011	1563.6	47.95	33
Return	+329%	+961%	-60%

Source: Reuters, World Gold Council, The Perth Mint

The table makes it clear that the 60% decline in the GSR in this time was a result of a more than 950% increase in the price of silver. Gold investors also fared very well, with the price increasing by more than 300%.

Given this history and the multiple tailwinds supporting precious metal markets going forward, it's understandable why many investors are looking to allocate a portion of their portfolio to silver today.

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.

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

As a consequence, the entity an SMSF trustee chooses to invest in precious metals through typically plays two roles. As well as acting as custodian to secure the trustee's investment, it is also the market maker, meaning that when the SMSF trustee wants to buy, the entity has precious metals to sell them. In the same way, when a trustee wishes to sell, the entity has the capacity to buy.

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 and silver bars?
- Are its investment products 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 an 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 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 and silver holdings.

About The Perth Mint.

More than AUD 6 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 6 billion in physical metal for more than 70,000 clients, ranging from individual investors to SMSF trustees, sovereign wealth funds and central banks.
- Manufacture physical precious metal products worth more than AUD 25 billion annually.
- Refine approximately 10% of annual global gold production, including in excess of 80% of Australia's gold production.
- Distribute minted bars and coins to more than 100 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.

Our 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 25 billion, our 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, The World Gold Council, 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 to 1978, AUD gold price published by the World Gold Council onward.

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.

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