Corporate and Investment Banking

Your future, your gold.

NewGold Investment Case

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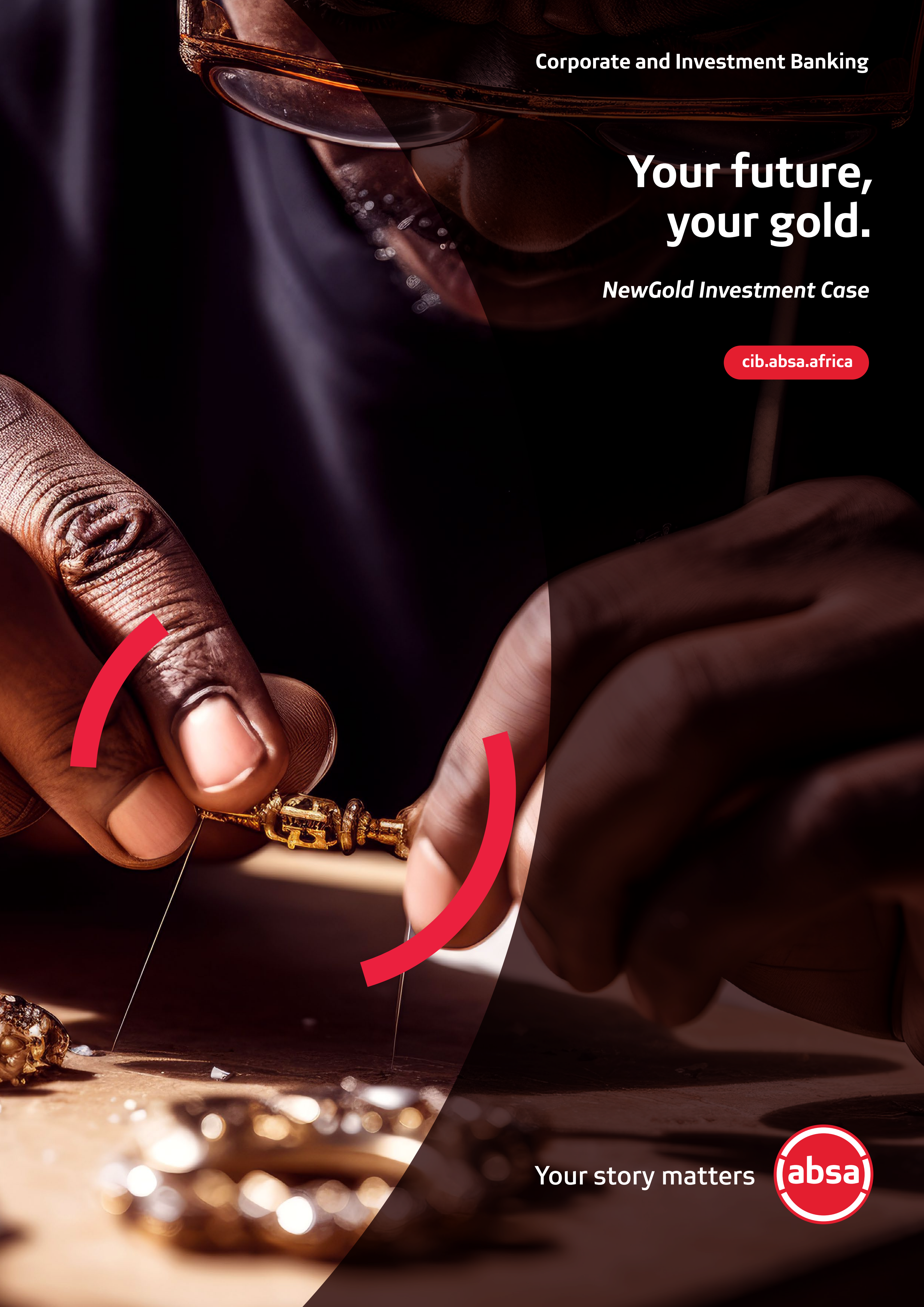


Your story matters

NewGold provides investors with the simplest and cost-effective way to invest directly into actual gold. The Fund tracks the gold spot price and enable investors to invest in a listed security structured as debenture and each security issued is equivalenvt to 1/100th ounces of gold less annual sales charge of 0.30% and physically backed by gold bullion ICBC Standard Bank as its custodian.

Investment Case

Investment case for NewGold is based on investment characteristics for gold as viable asset that need to be considered for a place in a multi-asset portfolio construction. Gold can be use both tactically and strategically by portfolio manager in the multi-asset portfolio. Tactically it has been used historically to preserve value of investment during:

- Systematic risk events
- Geopolitical stress
- High global currency fluctuation

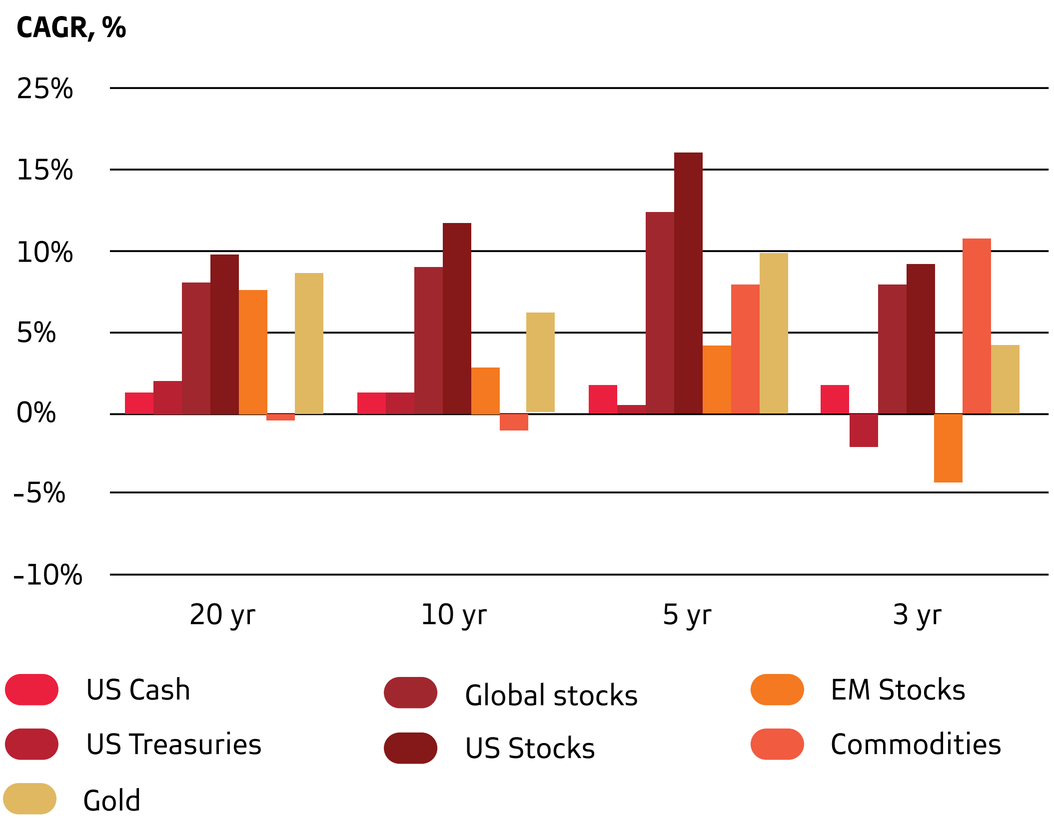
Strategically gold has been used by investors as an effective diversifier and as a source of long-term return in a multi-asset portfolio.

Gold's key attributes

Returns

Gold has many key attributes but for the purpose of this paper, the focus will be on return and diversification. Investors have long considered gold a beneficial asset during periods of uncertainty. Yet, historically, it has generated long-term positive returns in both good and bad economic times. Its long-term return nature stems from its diverse source of demand and use. Gold is used as both investment asset and consumer goods. Gold in US Dollar has increased by nearly 8% per year since 1971 according to World Gold Council, a year that marked the gold IPO. Gold performance is comparable to equities and bonds and has outperformed other asset classes over 20 years.

Annualised Return over the past 3, 5, 10 and 20 years*



Source: Bloomberg, ICE Benchmark Administration, World Gold Council

Diversification

Effective diversifiers are sometimes hard to find. Many assets become increasingly correlated as market uncertainty rises and volatility is more pronounced, driven in part by risk-on/risk-off investment decisions. Gold has historically proven to be different to other asset classes. WGC and other investment houses had look at gold correlation to global investible asset classes and most analysis outcome indicate that gold can be an effective diversifier.

We did a similar analysis to demonstrate that gold could achieve a similar outcome when compared with South Africa (SA) investible assets. We compared NewGold as it tracks ZAR price of gold vs SA investible assets as represented by major reference indices. We look at period from 2004 which to IPO for NewGold until 2023. The results were not surprising, it demonstrated that NewGold has low to negative correlation with SA investible assets, making one of the effective diversifier and good risk management tool.

Correlation Matrix (ZAR)

	STEFI 3 Month	FTSE/JSE All Share Index Total Return Index	FTSE/JSE ALBI Total Return Index	FTSE/JSE SA Listed Property Total Return Index	MSCI All Country World Index TR Gross	Bloomberg Global Aggregate Bond TR Index	NEWGOLD ISSUER LTD-GLD B DEB
STEFI 3 Month	1	0.02086	-0.01216	-0.01207	0.003621	0.03178	0.03696
FTSE/JSE All Share Index Total Return Index	0.0286	1	0.2219	0.458	0.3993	-0.2203	-0.05777
FTSE/JSE ALBI Total Return Index	0.01216	0.2219	1	0.3896	-0.1553	-0.3344	-0.2586
FTSE/JSE SA Listed Property Total Return Index	-0.01207	0.458	0.3896	1	0.1338	-0.1659	-0.1567
MSCI All Country World Index TR Gross	0.003621	0.3993	-0.1553	0.1338	1	0.4891	0.1548
Bloomberg Global Aggregate Bond TR Index	0.03178	-0.2203	-0.3344	-0.1659	0.4891	1	0.4367
NEWGOLD ISSUER LTD-GLD B DEB	0.03696	-0.05777	-0.2586	-0.1567	0.1548	0.4367	1

Source: Absa, Bloomberg

Other considerations for gold tactical allocation.

Storage of value

Historically, major currencies were pegged to gold during period known as gold standard which ended in 1971 which marked the period also termed "the IPO" for gold. Since then, with few exceptions, gold has significantly outperformed all major currencies and commodities as a means of exchange. A key factor behind this robust performance is that gold mine production has grown slowly over time – increasing by approximately 1.7% per year over the past 20 years according to WGC while growth money supplier has been unprecedented. Gold has historically preserved purchasing power across multiple inflationary environments which made it also considered as one of the tools to manage inflation risk.

Interest rates

Real interest rates affect the gold price, higher interest rate is considered bad for the gold price and is considered as an opportunity cost for holding gold in a portfolio. Investors who want to benefit from short-term movement of gold prices will need to also in addition to other factors pay attention to the short-term interest rate movements. Gold in a portfolio can also be considered currency hedge especially in markets whose investments are valued in currencies that are too sensitive to US Dollar movements.

Gold can be used as core diversify and can help improve overall risk adjust return even at different allocation level. Our view is that NewGold provide investors with direct exposure to gold.

Case for inclusion of NewGold in a multi-asset portfolio construction

- A South African multi-asset hypothetical portfolio was developed.
- It is consisting of all investible capital assets represented by respective market indices.
- % allocation per asset class was based on average allocation by multi-asset managers AUM survey report for 2023 in conjunction with ASISA high equity portfolio asset allocation.
- To examine the potential outcome, we added 2.5%, 5%, 7.5% and 10% strategic allocation to NewGold into hypothetical portfolio.
- When allocating gold, we reduce exposure to other asset classes in proportion to their original weighting to multi-asset portfolio with zero gold allocation.

		Hypothetical Portfolios - % exposure per asset class				
Asset Class	**Market Indices**	**Portfolio 1**	**Portfolio 2**	**Portfolio 3**	**Portfolio 4**	**Portfolio 5**
Cash	STEFI 3 Month Index	5,00	5,00	5,00	5,00	5,00
		5,00	**5,00**	**5,00**	**5,00**	**5,00**
SA Equities	FTSE JSE All Share Index Total Return Value	35,00	33,99	32,99	31,98	30,98
Int. Equities	MSCI All Country World Index TR Gross	35,00	33,99	32,99	31,98	30,98
Properties	FTSE/JSE SA Listed Property Total Return Index	3,00	3,00	3,00	3,00	3,00
Total Equities		**73,00**	**70,99**	**68,98**	**66,97**	**64,95**
SA Bonds	FTSE/JSE ALBI Total Return Index	17,00	16,51	16,02	15,53	15,05
Int. Bonds	Bloomberg Global Aggregate Bond TR Index	5,00	5,00	5,00	5,00	5,00
Total Bonds		**22,00**	**21,51**	**21,02**	**20,53**	**20,05**
Gold			2,50	5,00	7,50	10,00
Altern, Assets			**2,50**	**5,00**	**7,50**	**10,00**
Total		**100,00**	**100,00**	**100,00**	**100,00**	**100,00**

Portfolio Name	NGLD Allocation (%)	Annualized Returns (%)	Annualized Standard Deviation (%)	Sharpe Ratio (%)	Maximum Drawdown (%)
Portfolio 1	0	12,93	9,47	1,36	23,06
Portfolio 2	2.5	13,03	9,25	1,41	21,59
Portfolio 3	5	13,12	9,05	1,45	20,11
Portfolio 4	7.5	13,21	8,89	1,49	18,60
Portfolio 5	10	13,30	8,75	1,52	17,08

From the results shown below, we found that in our hypothetical scenarios:

- Portfolios 2, 3, 4 and 5 had higher Sharpe ratios, lower maximum drawdowns, and lower standard deviations with higher returns compared with Portfolio 1, the portfolio with no exposure to gold.
- Portfolio 5 had the highest Sharpe ratio (1,52%) and the highest annualized return (13.30%).
- Portfolio 5 also had the lowest maximum drawdown (-17.08%)
    - From a risk-adjusted return perspective, our hypothetical blended portfolio results showed that adding a 2.5%, 5%,7.5% or 10% allocation to NewGold in the portfolio would have improved Sharpe ratios.
    - From a risk management perspective, hypothetical portfolios with a GLD allocation had lower maximum drawdowns.

Our conclusion is based on the above analysis is that adding gold to multi-asset portfolio may improve the overall risk-adjust return.

Options for finding right gold for your portfolio.

Mining stocks/Gold Mining Stocks Index ETF

- This represents indirect method to invest in gold as stock price may be affected by other factors other than gold price.
- Mining stocks also pay income to investors when the company is doing well.
- Offer potential leverage to price of gold but when gold price fall, the loss could be amplified.
- Negative news relating to mining company is likely to increase price risk of stock but may have zero or positive impact on the prize of gold i.e., industrial actions.

Gold coins or bars

- Kruger Rand is still popular way to invest in gold especially for retail investors to gain exposure to gold.
- Insurance, storage costs and liquidity are a big consideration for institutional investors hence they prefer other options.
- Investors are generally required to pay a premium over spot to make it attractive to the seller.

Gold backed ETFs

- Offers direct exposure to gold through passive investing i, e tracking the price of gold.
- The ETF is physically backed by gold in a ring-fenced structure that eliminated credit risk.
- Provide cost-effective and efficient access to gold as it is structured as low-cost product.
- Open ended structure is regulated and has regulated market maker to provide liquidity.
- Provide various trading options i.e., bartering and market trade to reduce arbitrage and reduce tracking errors to regulated trading costs.

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