



Investing Directly in Gold Through Exchange Traded Products (ETPs)

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There are now 3 Exchange Traded Products, listed on the JSE, offering local investors direct access to international gold bullion markets. These products are:

- **NewGold ETF** – an Exchange Traded Fund (ETF) issued by **Absa Capital**. NewGold is structured similar to a Collective Investment Scheme. Gold is held in physical form (gold bullion bars) in a ringfenced insolvency remote Trust and NewGold securities are issued as participatory interest in the assets of the Trust, fully backed by physical gold.

NewGold securities trade in rands on the JSE and therefore offers the return of the rand gold price. NewGold is by far the biggest ETP listed on the JSE, with a current market capitalisation of R21,5 billion.

- **Gold-Linker ETN** – an Exchange Traded Note (ETN) issued by **Standard Bank**, under its commodity-linker ETN programme. Standard Bank does not physically hold gold bullion bars, but covers its liability through gold futures contracts.

Whilst the contango (forward price premium) can be a benefit, the need to roll-over futures contracts every 3 months has some costs involved and this negative roll-over yield can impact in performance.

The Gold-Linker ETN securities are listed and traded on the JSE in rands, which is similar to the exposure offered by NewGold.

The issuers of Exchange Traded Notes have the obligation to deliver the total return of the asset being tracked. This obligation constitutes a debt obligation and so investors need to take into account the credit rating of the ETN issuer. Standard Bank has an investment grade credit rating.

- **Investec Gold ETN** – issued by **Investec Bank Limited**, this ETN offers investors exposure to the US dollar price of gold only. It differs from the other 2 gold ETPs in that the Investec gold ETN has no exposure to the US dollar/rand exchange rate. Investec utilises a so-called “quanto” adjustment, whereby it accounts for any percentage movement in the US dollar gold price being reflected in a one-tenth change in the rand price of the Investec Gold ETN. For instance, if the US\$ gold price moves from US\$1740 to US\$1780 per ounce, the Investec ETN price will go from R174 per security to around R178 per security.

Investec does not charge a management fee for the Investec Gold ETN, but will impose a quanto-linked fee, which is the hedging cost of the dollar/rand currency risk net of the overnight Investec funding rate. Investec indicates that the cost incurred in hedging the currency risk has averaged around 3,9% per annum over the past five years, however this cost is currently totally offset by the overnight interest rate received.

Currently investors should expect to pay 0% in fees, however this may change based on the interest rate environment, or hedging costs associated with the currency risk. The daily floating quanto fee can be monitored on the Investec financial product website www.Investec.co.za/Gold.

Investors in these ETNs need to take into account the credit rating of Investec Bank, which has as an investment grade rating.

Gold ETP Information			
	Absa Capital NewGold ETF	Standard Bank Gold-Linker ETN	Investec Gold ETN
JSE share code	GLD	SBAGI	GOLDEN
Tracking target	Rand price of gold bullion	Rand price of gold bullion	US dollar price of gold bullion
Exposure	Gold bullion spot price	Gold bullion futures price	Gold futures price (in US dollars)
Exposure per security	1/100 th oz of gold	0,0114 oz of gold	1/100 th oz of gold
Market cap of securities in issue	R21 518,0 million	R167,4 million	R475,7 million
Current price/ETP	R145,50	R168,90	R170,30
Total expense ratio (TER)	0,40%	0,50%	n/a (dollar/rand hedge charge approx. 3% p.a.)
Credit rating	AA2 (Moody's) AA+ (Fitch)*	A2 (Moody's) AA (Fitch)	AA3 (Moody's) A+ (Fitch)
* Credit ratings not applicable to ETFs which hold the physical assets underlying all obligations. Source: Product Issuers Fact Sheets.			

Why Invest in Gold?

- The US dollar gold price has accelerated from US\$250 per ounce to around US\$1700 per fine ounce, over the past eleven years, making it one of the better performing investment assets over this period of time.
- The surge in the gold price has been a function of, inter alia,
 - *Plunging interest rates.* As gold is a non-interest bearing asset, low or negative real rates of interest work in its favour.
 - *Uncertainty in investment markets* has raised interest in gold as a hedge instrument – when conventional markets zig, gold zags.
 - *Growing prosperity in the developing world* (notably India and China), where gold bars and gold jewellery is used as a form of storing wealth, has increased the demand for gold.
 - *The massive expansion of money supply growth* in the major economies in response to the financial crises, as Governments and Central Banks add liquidity to the banking system, has raised fears about future inflation. Gold bullion is not FIAT money that can be easily created by Governments and monetary authorities, so in times of inflationary concerns where money loses its value, gold is demanded.
- Gold mine shares have proved a disappointing investment in recent years, particularly in South Africa. Mine labour strikes, rising working costs, lower ore grades, mining regulation uncertainties and threats of nationalisation, have made investment directly into gold bullion, rather than gold mines, a much more attractive proposition.
- The optimal way to invest directly in gold bullion, particularly from a cost and convenience perspective for South African investors is through the Exchange Traded Products, listed on the JSE, that provide direct exposure to the gold price.
- The gold ETPs are “inward investments” in terms of foreign exchange control regulations, which means that individual investors and corporations can invest unlimited amounts, without requiring foreign exchange control approval or tax clearance.

Performance Data – Total Returns (% change)							
	1 month	3 months	6 months	1 year	2 years (p.a.)	3 years (p.a.)	5 years (p.a.)
NewGold ETF	5,77%	12,54%	15,30%	13,88%	27,55%	25,47%	22,79%
Standard Bank Gold-Linker ETN	4,69%	11,79%	13,11%	10,17%	25,37%	-	-
<i>Note: Investec Gold ETN only listed in late-October 2012 (no performance data available).</i> <i>Source: etfSA.co.za/Profile Media Performance Survey (end-September 2012).</i>							

All three gold ETPs reviewed in this Report can be purchased through any JSE member stockbroker or through specialised Exchange Traded Product investment platforms, such as etfSA Investor Scheme[®]

For more information or detail, please contact the undersigned.

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