

The Importance of the Physical Gold ETC Custodian



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1) Why do investors buy gold & gold ETCs?

Many investors hold a certain percentage of their portfolios in gold. This is an age-old approach that can be tracked for thousands of years. Modern investment practices are no different and allocations of around 2% to 10% of gold in a typical pension have provided better risk-adjusted returns than those with broad-based commodity allocations according to the World Gold Council ¹.

Investors largely hold gold as an 'insurance' or 'safe haven' asset and expect it underpin their portfolios of perceived riskier assets such as equities during times of market turbulence. The expectation of investors during times of market stress is that their riskier assets may fall in value or increase in volatility, whilst gold will hold firm or rise in value.

Investors buy physical gold ETCs due to the ease of buying and holding them. ETCs trade in the same way as a share and each are physically backed by 'allocated gold'.

2) Physical gold is finite unlike financial instruments and can't be leveraged

"The total gold mined in the world amounts to 190,000 metric tons, the equivalent to 9,800 cubic meters. This would fill three 3,750 cubic metre swimming pools, with 1,450 cubic metres of space still available" - World Gold Council, 8 Mar 2019

Gold has a finite supply and can't be leveraged unlike other financial assets. More gold can be mined but due to increasing costs of production, gold needs to be at a certain price for this to make economic sense. Investors can own gold as a private asset outside the financial system. Most assets cannot be held privately.

3) Gold is a 'safe haven' asset & gold custodians

Gold is often termed as a 'safe haven' asset. This means that it is 'safe' against influences on the financial system and systemic risk. As gold is physical, it's important that it is kept in a safe and secure fashion. Gold holders mostly do this through a 'gold custodian'. Gold custodians build highly secure vaults with some of the most intensive security protocols in the world. The vaults are expensive to build and involve significant technological and engineering skill on the part of the designers.

4) Gold custodians – bank or non-financial company?

To be a true 'safe haven' asset it could be argued that investors should keep their physical gold with a non-financial, gold custodian. Banks are very heavily involved in the gold custody market but there are also other participants such as sovereign mints, that are state owned and not privately held.

As was evidenced in multiple market crashes in the last 100 years, including 2008, banks and financial institutions can and do fail. Gold on the other hand does not carry the same risks. Many governments will bail out institutions deemed 'too big to fail' and underwrite private investor losses - but this is often only a limited amount. Not all banks will fail but investors could be the unlucky ones who choose the wrong bank.

Gold investors therefore tend to look for alternatives to holding gold at banks or other financial institutions. Sovereign mints are significant players in physical gold custody as it is core to their business of offering

¹ <https://www.gold.org/goldhub/research/gold-when-investing-in-commodities>

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precious metal coins and collectables - for example, The Royal Mint's 'Gold Sovereigns and Britannia's' which they mint and custody for their clients. Their ownership is typically the government in the state within which they operate. Therefore, they are arguably more resistant to the volatility of the financial markets. This is evidenced by The Royal Mint's establishment date of 886AD and the Monnaie de Paris (French Mint) in 864AD. Both have been in existence for over 1100 years which means they have weathered points in history such as the bubonic plague, the 100 years' war and both world wars.

5) Why a vault's location is important

The location of the vault is also important. As physical gold is bulky and heavy, the custody vaults tend to be large structures. They are also used for other value physical items as well, such as other precious metals like the white metals: silver, platinum and palladium. As these structures are costly to construct and maintain, it's important their location is as safe and secure as possible.

Accepting that all vaults are secure and fit for purpose is a major issue. Is the vault's location exposed to geo-political concerns, such as acts of war and terrorism? Investors should consider their options. Typically, large metropolitan areas such as London and New York are most at risk to acts of terrorism. Therefore, investors should consider vaults that are located away from such centres.

For example, during Operation Fish in 1940, the UK Government moved Britain's gold and other valuable items to Canada to prevent Germany stealing the gold in the event of a successful invasion. It was known as the largest movement of wealth in history and is estimated in today's money to have been valued at £300Billion².

About RMAU

The Royal Mint Physical Gold ETC Securities (RMAU) is designed to offer investors an effective way to access the gold market as it tracks the spot price of physical gold.

It is the first financial product to be sponsored by The Royal Mint and the first gold ETC custodied with a European Sovereign Mint.

The ETC is backed by London Bullion Market Association (LBMA) Good Delivery bars held on a segregated basis. The gold will be stored and guarded in The Royal Mint's highly secure vault in Llantrisant, Cardiff.

The value of your investment may go down as well as up and past performance is no indication of future performance. Your capital is at risk.

EXCHANGE	BB CODE	RIC	ISIN	SEDOL	CCY
London Stock Exchange	RMAU LN	RMAU.L	XS2115336336	BKT7175	USD
London Stock Exchange	RMAP LN	RMAP.L	XS2115336336	BKT7197	GBP
Xetra/Deutsche Börse	RM8U GY	RM8U.DE	XS2115336336	BKT71G4	EUR

For more information, visit [The Royal Mint Physical Gold ETC \(RMAU\) fund page](#)

² <https://medium.com/@interestingshit/how-the-largest-transfer-of-wealth-in-history-took-place-operation-fish-a0d1fc39f9b1>

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About HANetf

HANetf is an independent ETF specialist working with third-party asset managers to bring differentiated, modern and innovative ETF exposures to European investors via unique white-label ETF/ETC platform.

Founded by two of Europe's leading ETF entrepreneurs, Hector McNeil and Nik Bienkowski, HANetf provides a complete operational, regulatory, distribution and marketing solution for asset managers who want to successfully launch and manage UCITS ETFs.

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Risk factors

The Base Prospectus lists the risk factors that are relevant to the securities in its Section 2. Investors should consider carefully these risks before investing.

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