



# Troy Multi-Asset Insights

## Gold - a store of value

*“Betting against gold is the same as betting on governments. He who bets on governments and government money bets against 6,000 years of recorded human history.”*

– Charles de Gaulle

Our aim at Troy has always been to preserve our investors’ hard-earned capital and increase its value in real terms over the long term. Since February 2005, physical gold has played an important role in achieving this objective for Troy’s Multi-Asset Strategy, generating a compound annual return of 11% (in GBP terms)<sup>1</sup>.

This paper sets out why we own gold, the role it plays in portfolios and how we weight it against other asset classes.

### Why gold?

Gold is unique in its durability and resilience. It is a currency that has survived millennia and proved to be a rare store of value in an ever-changing world.

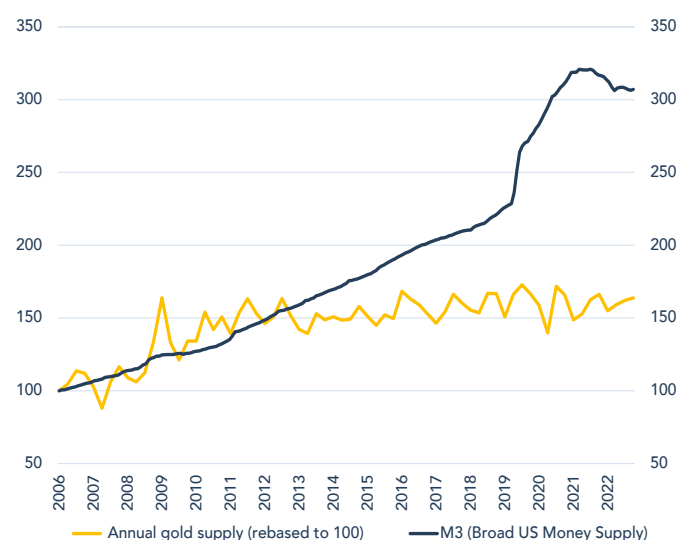
Gold’s lasting value is linked to its physical attributes. Gold is chemically inactive, virtually indestructible and, unlike other resources, is not depleted through use or wear. There is also a finite amount of gold in the ground, rendering gold’s supply remarkably stable. Mined gold in any one year typically amounts to approximately 1.8% of the overall above-ground stock<sup>2</sup>. Contrast this with the expansion of money supply (Figure 1) and gold’s merits as a supply-constrained currency are compelling. Gold exists outside of the financial system and is no one’s liability. [Fiat currencies](#) exhibit an inherent fragility linked to the fiscal and monetary prudence of the issuing government. The unorthodox monetary policies of Central Banks following the global financial crisis, including zero interest rates and quantitative easing, coupled with greater fiscal largesse since the pandemic, suggests such prudence is in short supply. Unorthodox policies are easily entered into but only ever exited with difficulty. As Milton Friedman insightfully said, ‘nothing is so permanent as a temporary government program’! The credibility

of fiat currencies can be shattered overnight, as we have seen in the case of several emerging market currency devaluations (e.g. Turkey, Nigeria and Argentina), or it can be eroded gently, as has occurred in much of the developed world.

Gold’s intrinsic value is difficult to ascertain but the rise in the gold price parallels the debasement of fiat currencies over the long term. The widespread acceptance of gold as a store of value is time-tested and likely to persist. Gold has been a safe haven for thousands of years, making it more likely that it will continue to be so for a long time to come. In many respects, gold is a perfect example of the Lindy effect, which proposes that the longer something has survived, the longer its remaining life expectancy is likely to be.

These attributes combine to make gold an asset that provides real diversification benefits to a strategy seeking to avoid the permanent impairment of capital.

**FIGURE 1 - ANNUAL GOLD SUPPLY AND THE EXPANSION OF US MONEY SUPPLY (M3) SINCE 2006**



Source: Troy Asset Management Limited, Bloomberg, World Gold Council, December 2023. M3 is a collection of the money supply that includes M2 money as well as large time deposits, institutional money market funds, short-term repurchase agreements, and larger liquid funds.

<sup>1</sup>Compound annual return of the gold price from February 2005 to January 2024.

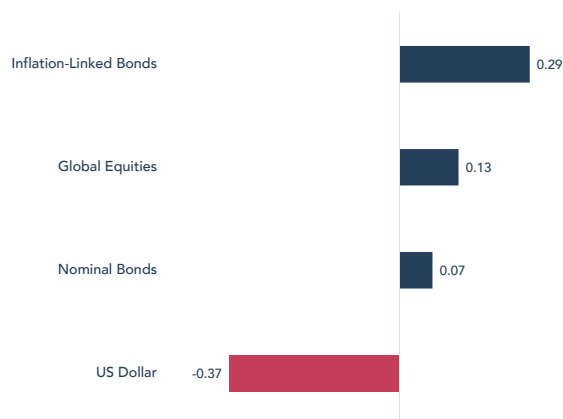
<sup>2</sup>Source: World Gold Council



## What role does gold play in a portfolio?

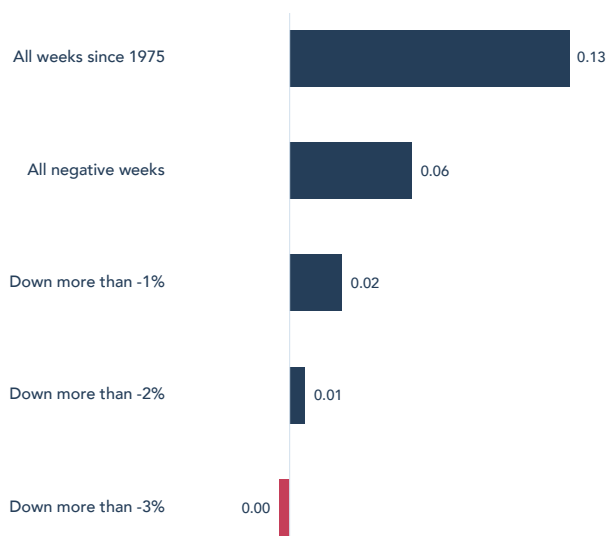
Gold acts as a valuable diversifier in Troy's Multi-Asset Strategy and is essential portfolio insurance. A lack of industrial utility and its status as a safe haven mean that gold is not economically sensitive and has a low correlation with other asset classes (Figure 2). Gold's correlation with equities also typically declines during periods of market stress (Figure 3), giving gold an antifragile<sup>3</sup> quality that supports the preservation of capital.

**FIGURE 2 - GOLD HAS LOW CORRELATION TO OTHER PORTFOLIO ASSET CLASSES**



Source: Bloomberg, 31 December 2023. Correlations based on weekly USD price returns since 31/12/1974 (30/04/1998 for Inflation Bonds). Global Equities = MSCI World (MXWO Index). Dollar = Dollar Trade-Weighted Index (DXY Index). Nominal Bonds = Bloomberg US Treasury Index (LUATTRUU Index). Inflation-Linked Bonds = Bloomberg US Treasury Inflation Notes Index (LBUTTRUU Index).

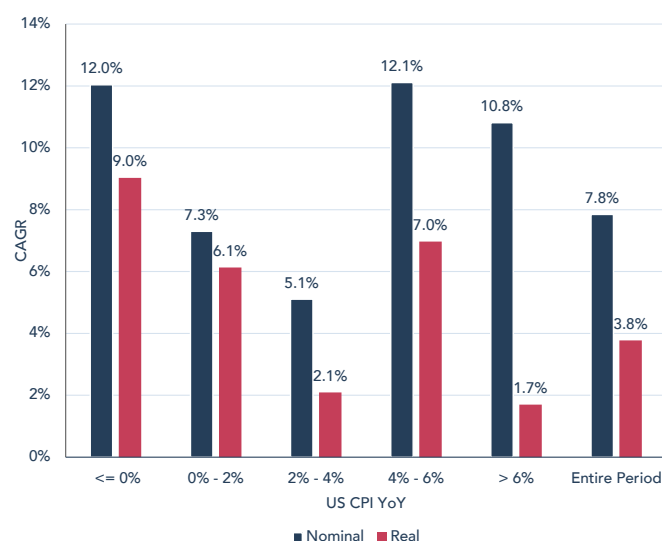
**FIGURE 3 - GOLD & MSCI WORLD INDEX CORRELATION SINCE 1975**



Source: Troy Asset Management, Bloomberg, 31 December 2023. Past performance is not a guide to future performance. Correlations based on weekly USD price returns since 31/12/1974.

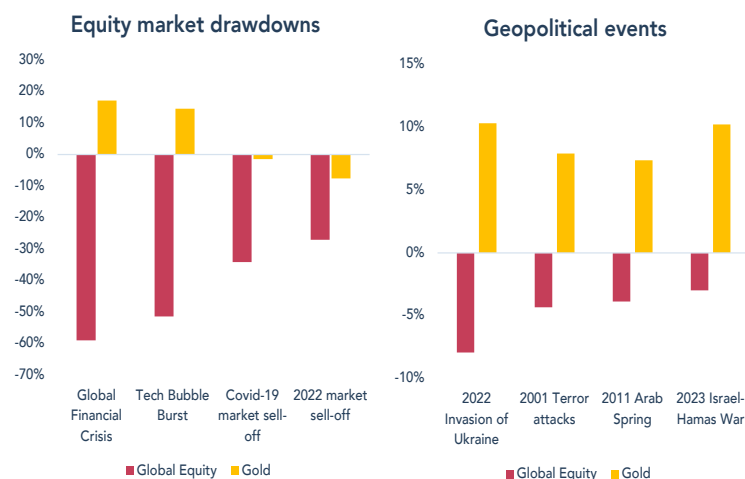
We do not try and predict short-term fluctuations in the price of gold. However, we do believe that gold provides strategic long-term insurance for a portfolio. This belief is supported by gold's track record across a wide range of environments. Gold has played a role in preserving capital in periods of inflation, deflation, during wars and conflicts, and at times of financial market stress (Figures 4 & 5).

**FIGURE 4 - COMPOUND ANNUAL GROWTH RATE (CAGR) OF GOLD DURING DIFFERENT INFLATIONARY REGIMES (1970-2023)**



Source: Troy Asset Management, Bloomberg, 31 December 2023. Past performance is not a guide to future performance.

**FIGURE 5 - GOLD DURING EQUITY MARKET DRAWDOWNS AND GEOPOLITICAL EVENTS**



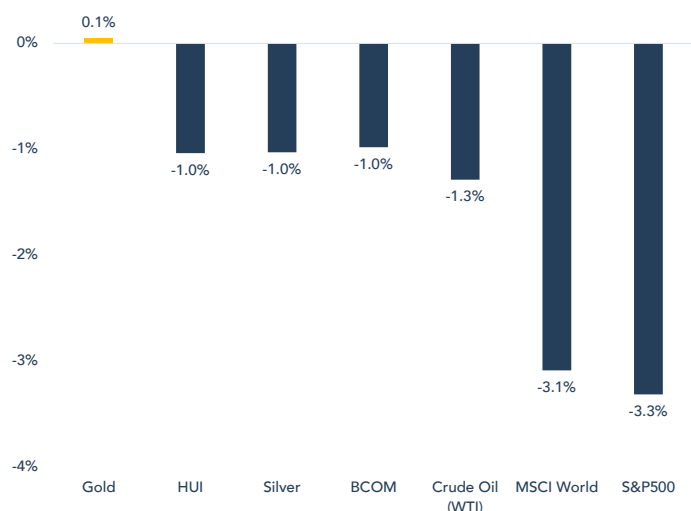
Source: Troy Asset Management, FactSet, 31 December 2023. Gold in USD. Past performance is not a guide to future performance.

<sup>3</sup> Antifragility is a concept developed by Nassim Taleb, which describes the ability to not only withstand stress and adversity but thrive under such conditions.



When investor faith in [risk assets](#) weakens, gold has tended to perform well. Figure 6 shows the average performance of gold, and other assets, during the worst 20% of weeks for the S&P 500 Index since 2000, displaying the defensive characteristics we seek.

**FIGURE 6 - AVERAGE PERFORMANCE DURING WORST 20% OF WEEKS FOR S&P 500 INDEX SINCE 2000**



Source: Bloomberg, 30 June 2023. Past performance is not a guide to future performance. HUI is the Bloomberg ticker for the NYSE Arca Gold BUGS Index. BCOM is the Bloomberg ticker for the Bloomberg Commodity Index. Troy multi-asset portfolios started investing in gold bullion in January 2005 at \$424 per Troy/ounce. All references to benchmarks are for comparative purposes only. All references to other assets are for comparative purposes only.

Other assets can play a valuable role in a portfolio but few support resilience in as broad a range of environments as gold. For instance, cash and government bonds can help dampen volatility and make a portfolio more defensive in times of stress but do little to protect against the erosion of wealth during periods of inflation, or when interest rates rise rapidly from multi-decade lows, as they did in 2022-2023. Commodities often perform well when inflation is rising but are economically sensitive and suffer when there are deflationary shocks. The US dollar typically strengthens when there is uncertainty, benefiting from its safe haven status, but remains a fiat currency with all that that entails.

Gold's multi-functionality, in a portfolio context, is an attractive trait given the impossibility of accurately predicting the future, or how financial markets will specifically react to new developments. This reality,

as well as our commitment to simplicity and long-term investment focus, is why we avoid financial forms of portfolio insurance, including derivatives. Derivatives are tactical and binary in nature, and require you to buy and sell them in a timely manner. Such financial instruments may offer outsized returns when you're right but add complexity and can bleed a portfolio of performance from high incremental costs, should you wish to own them for any great length of time.

Rather than paying a premium for costly insurance, in the hope that it provides the required protection when needed, we much prefer the return profile offered by gold. Owning gold has allowed us to invest with a long-term mindset, adding robustness to Troy's Multi-Asset Strategy and supporting performance. Over the course of our ownership, gold has delivered a compound annual return of 11% (in GBP terms)<sup>4</sup>. As importantly, gold has performed well at extremes, providing protection when the portfolio has most needed it. It is an insurance policy that we have been paid to hold.

## How do we gain gold exposure?

Troy's Multi-Asset Strategy's exposure to gold has predominantly come via owning physically-backed gold exchange traded commodities (ETCs), where each security has an entitlement to the physical gold held by the ETC. The importance of this physical backing cannot be underestimated. A core reason for holding gold is to own the actual gold directly in the event of a crisis. With this in mind, we visit the relevant gold vaults to audit our gold exposure. We have also tested the deliverable status of ETCs by transferring gold bars to an allocated account for Personal Assets Trust<sup>5</sup>.

We purposefully do not hedge our gold exposure due to gold's inverse relationship with the US dollar.

We no longer invest in gold miners as experience has taught us that their business models negate many of the advantages of holding physical gold itself. The capital-intensive nature of mining, cost inflation, as well as the fact that miners are often loaded with debt and have poor records of capital allocation, typically results in wild swings in fortune

<sup>4</sup>Compound annual return of the gold price from February 2005 to January 2024.

<sup>5</sup> Personal Assets Trust is an investment trust managed by Troy Asset Management.



and a significant divergence in performance from physical gold. Gold miners add risk to a portfolio rather than mitigating it.

### **How do we weight gold in the portfolio?**

Since 2005, on average, we have held c.10% in gold-related investments. Over the last decade<sup>6</sup>, the portfolio's gold exposure has ranged from a low of approximately 8% to a high of around 12%. Whilst not an exact science, enough gold is required to provide sufficient downside protection. However, too much and one risks substantially skewing the performance of the entire portfolio during periods of gold weakness. Owing to gold's status as a currency, and consequently greater reliance on perception, episodes of underperformance can be self-perpetuating and last longer than expected. For example, from its peak in 2011 to its nadir in 2015, the price of gold fell c.-45% in USD terms (c.-41% in GBP), a large enough fall to have derailed performance if gold exposure was too high. Historically, gold has also struggled to perform during periods of high real interest rates. Conversely, having a meaningful exposure to gold in 2008 contributed to the positive absolute return the portfolio generated during a period of severe equity market weakness. More recently, the Multi-Asset Strategy's gold exposure helped dampen volatility during the pandemic and in 2022, when global equities sold-off aggressively.

### **Summary**

Gold has been a positive contributor to the Multi-Asset Strategy's returns over the long term, generating a strong compound return whilst also enhancing the resilience of the portfolio during times of stress. The price of gold will wax and wane but over time gold has proved to be a rare store of value across a broad range of environments. Whilst other currencies are steadily devalued, gold has stood the test of time. Although we don't try to predict short-term moves in the price of gold, gold provides real diversification benefits and plays an important role in helping us preserve and grow our investors' hard-earned capital over the long run.

<sup>6</sup> 31 December 2013 to 31 December 2023.



## Disclaimer

Please refer to Troy's Glossary of Investment terms [here](#).

The information shown relates to a mandate which is representative of, and has been managed in accordance with, Troy Asset Management Limited's Multi-asset Strategy. This information is not intended as an invitation or an inducement to invest in the shares of the relevant fund.

This document has been provided for information purposes only. Although Troy Asset Management Limited considers the information included in this document to be reliable, no warranty is given as to its accuracy or completeness. The opinions expressed are expressed at the date of this document and, whilst the opinions stated are honestly held, they are not guarantees and should not be relied upon and may be subject to change without notice. Third party data is provided without warranty or liability and may belong to a third party. Ratings from independent rating agencies should not be taken as a recommendation.

References to specific securities are included for the purposes of illustration only and should not be construed as a recommendation to buy or sell these securities. Neither the views nor the information contained within this document constitute investment advice or an offer to invest or to provide discretionary investment management services and should not be used as the basis of any investment decision. The value of an investment and any income from it may fall as well as rise and investors may get back less than they invested. Past performance is not a guide to future performance. Asset Allocation and holdings subject to change. All references to benchmarks are for comparative purposes only. Third party data is provided without warranty or liability and may belong to a third party.

Issued by Troy Asset Management Limited (registered in England & Wales No. 3930846). Registered office: 33 Davies Street, London W1K 4BP . Authorised and regulated by the Financial Conduct Authority (FRN: 195764) and registered with the U.S. Securities and Exchange Commission ("SEC") as an Investment Adviser (CRD: 319174). Registration with the SEC does not imply a certain level of skill or training. Any product described in this document is neither available in the USA or to U.S. Persons.

© Troy Asset Management Limited 2024.