

December 2021

World Gold Council Institutional Investor research

Germany

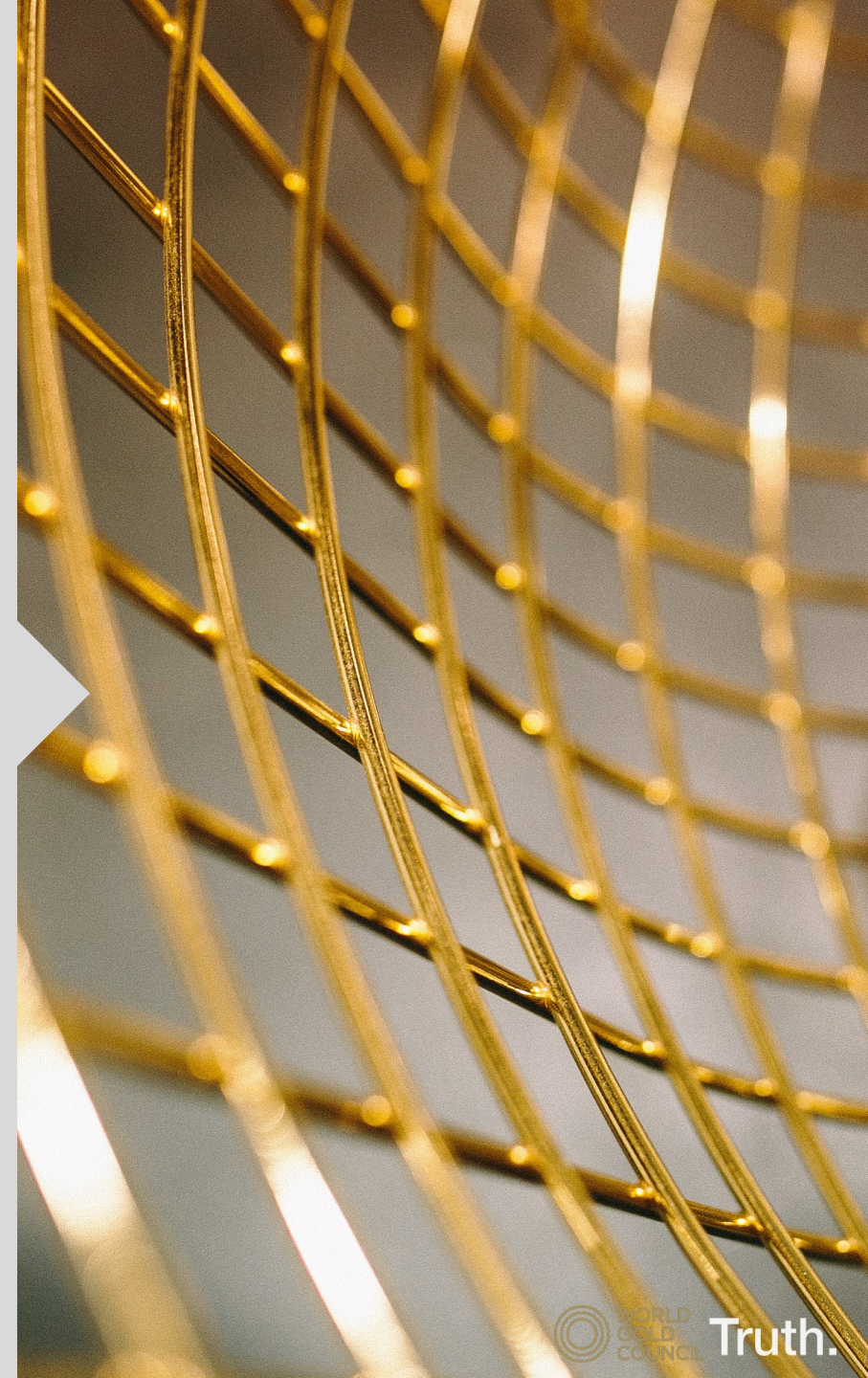
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Approach and sample

This research consists of structured survey interviews conducted over zoom (approx. 15 minutes in length) with 20x institutional investors based in Germany. Respondents meet the following criteria:

- Minimum AUM €1 billion
- Consist of senior roles and key decision makers / responsible investment leads
- Types of institutions include Pension funds, Investment Advisers, Asset Managers, Private Banks, Insurance Companies and Family Offices

Combined AUM across all respondents total over
€370 billion



Notes regarding the sample

The sample size for this study is not representative - the findings only provide indicative insights.

As a result, any data published should avoid making claims in percentage terms.

In this document, any reference to investors refers to those interviewed as part of the research.

Investment drivers - asset allocation

“We are also very conservative and that's why the topic of gold fits quite well with us. We think that in the next 5-10 years gold will play an enormous role as a stabiliser of the world economy and the whole financial system.”

“Wir sind auch sehr konservativ und deshalb passt das Thema Gold ganz gut zu uns. Wir denken, dass Gold in den nächsten 5-10 Jahren eine enorme Rolle als Stabilisator für die Weltwirtschaft und das gesamte Finanzsystem spielen wird.”

Asset Manager

Short-term (<1 year) asset allocation is largely driven by inflationary expectations

Trends in **inflation** are top of mind for institutional investors as they consider their short-term investment strategies.

This is closely followed by **liquidity concerns** and **return objectives**.

All three were chosen by over half of respondents.

Interest rate forecasting is considered less relevant short-term, with only 6 out of 20 respondents identifying it as a key objective.

Please list the top 3 factors or objectives that drive your short-term (<1 year) asset-allocation?



Inflationary expectations



Liquidity concerns



Return objectives

Longer term (+3 years) investors remain focused on inflationary expectations but are largely driven by return objectives when it comes to asset allocation

Expectations around **inflation** forecasts are still core to the longer term investment decisions, with over half of respondents (11 out of 20) highlighting it as a top 3 factor.

However, **return objectives** is the critical driver within long-term asset allocation, with a majority of respondents (16 out of 20) identifying it as a key factor.

Notably, **ESG goals** was only chosen by four respondents as a factor driving long term asset allocation, indicating the relatively limited role ESG plays in investment strategies.

Please list the top 3 factors or objectives that drive your long-term asset (+3 years) allocation?



Return
objectives



Inflationary
expectations



Rebalancing of
the portfolio

"We have to look at where we stand when we talk about inflation currently. Where are the inflation trends leading? We also need to consider this locally as well as on a sector by sector basis."

"Wir müssen uns anschauen, wo wir derzeit stehen, wenn wir über Inflation sprechen. Wohin führen die Inflationstrends? Wir müssen dies auch auf lokaler Ebene und für jeden einzelnen Sektor betrachten."

Insurance Company

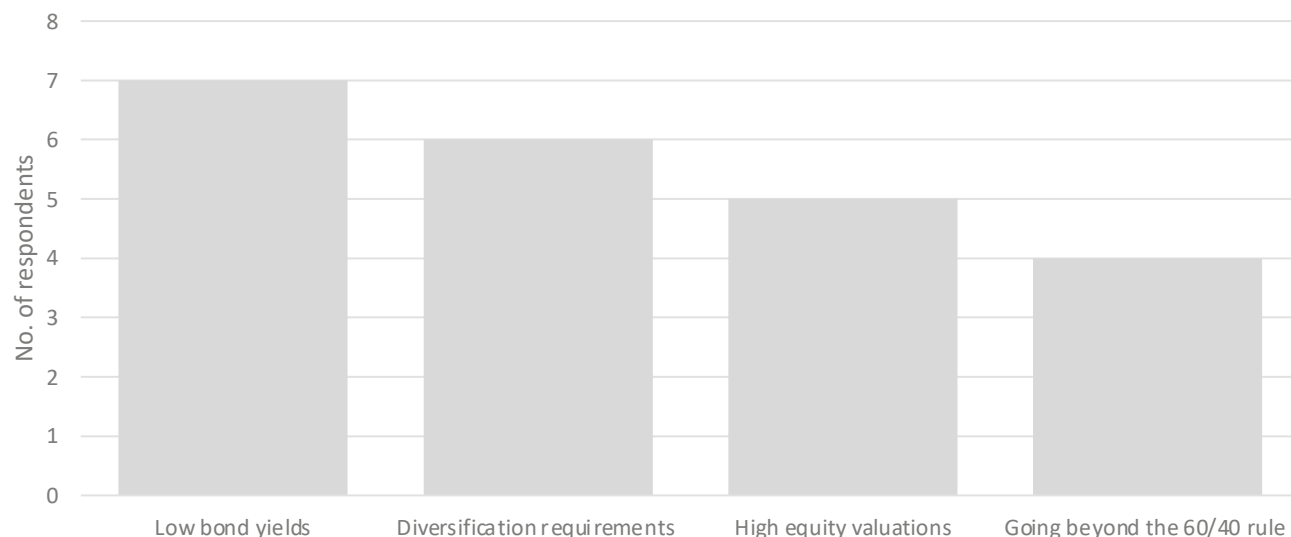
"Rebalancing of the portfolio is of course a factor but it is more of an overarching consideration or rationale - it is a consequence rather than a main driver."

"Die Neugewichtung des Portfolios ist natürlich ein Faktor, aber es ist eher eine übergeordnete Überlegung oder ein Grundprinzip - es ist eher eine Folge als ein Hauptantrieb."

Investment Adviser

Over half of respondents expect to increase their allocation to alternative assets in next 1-3 yrs

Investors selected **low bond yields, diversification requirements** and **high equity valuations** as the top three factors driving the increase.



Just over a third of respondents (7 out of 20) don't expect to increase their allocation to alternative assets in the next 1-3 years.

Do you expect to increase your allocation to alternative assets within the next 1-3 years?

YES

NO

13

out of 20

7

out of 20

Notably, respondents definition for alternative assets varied, with some associating 'alternative' solely with more sustainable or ethical investments.

"We believe that inflation will not continue, but we are cautiously increasing our liquidity rate as a result. We are doing this in order to also be able to react, for example, to a downturn in the stock market. I like to have a certain degree of flexibility."

"Wir glauben, dass sich die Inflation nicht fortsetzen wird, aber wir erhöhen deshalb nur vorsichtig unseren Liquiditätssatz. Wir tun dies, um zum Beispiel auch auf einen Abschwung an den Aktienmärkten reagieren zu können. Ich möchte ein gewisses Maß an Flexibilität haben."

Family Office

"We are aiming to spread or reduce the risk through a mixture of alternative investments."

"Wir versuchen, das Risiko durch eine Mischung aus alternativen Anlagen zu streuen oder zu reduzieren."

Private Bank



The investors that actively invest in gold have on average approx. 10% allocation to gold

Of those interviewed, **15 out of 20 respondents hold an allocation to gold** in their investment portfolios.

While investments in gold ranged from under 1% to 20%, **half of those interviewed have an allocation between 5-10%.**

Of those remaining, most had over 10% holding, while a few had less than 5%.

5 investors interviewed do not have any holdings in gold.

All non-holders in gold highlighted that 'it is not an investment area they have prioritised or considered'

All 5 respondents with no allocation to gold chose the same response when asked why their portfolio currently does not have an allocation to gold:

"This is not an investment area you have prioritised/considered"

This indicates that non-holders are not currently considering an investment in gold, nor have they considered an allocation in the past.

The interviews suggest that this is partially due to a lack of awareness. However, this is also due to investment limitations, with some investors exclusively focused on certain types of investments (e.g. equities).

"Gold is just kind of liquidity neutral. It becomes illiquid for us. That's why we don't deal with it so much in the overall context."

"Gold ist sozusagen liquiditätsneutral. Es wird für uns illiquide. Deshalb befassen wir uns im Gesamtkontext nicht so sehr damit."

Institutional investor

Gold is viewed as a safe haven investment

Gold is considered **a stable investment that maintains value even in times of crisis including geopolitical and macroeconomic uncertainty.**

Investments in gold are also viewed as an effective way to **balance the risk inherent in investing in equities.**

When stock markets are in the red or crash, **investors expect gold to preserve value in their portfolios.**

How investors describe the purpose of an investment in gold

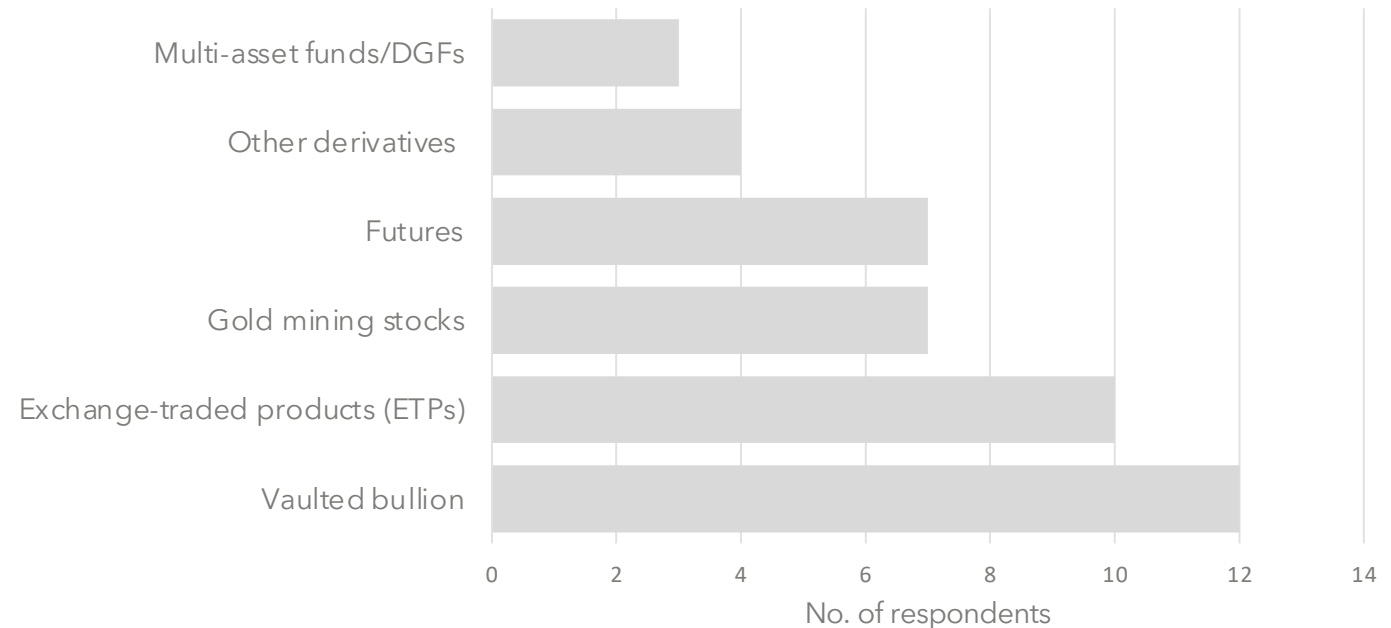
- ✓ Life insurance
- ✓ Protection
- ✓ Value-preserving investment
- ✓ Inflation hedge
- ✓ Stock counterbalance

Respondents favour vaulted bullion and exchange-traded products (ETPs) over futures and equities

Vaulted bullion (12 out of 15) is viewed as a more secure investment, particularly in its role as value preserver.

ETPs (10 out of 15) are also popular amongst these investors, with **gold mining stocks (7 out of 15)** and **futures (7 out of 15)** proving to be less desirable options but still common investment options.

Multi-asset funds/DGFs and **other derivatives** are the most rare with 3 out of 15 and 4 out of 15 respondents respectively holding an investment.



Some examples of how investors view different investment types...

Vaulted Bullion

"We predominantly hold physical gold as a security reserve."

"Wir halten vor allem physisches Gold als Sicherheitsreserve."

-Family office

Exchange traded products

"I would go for ETFs because I can turn them into money immediately with the click of a mouse."

"Ich würde mich für ETFs entscheiden, weil ich sie mit einem Mausklick sofort zu Geld machen kann."

-Investment adviser

Gold mining stocks

"Equities always perform better."

"Aktien schneiden immer besser ab."

-Investment adviser

"Gold comes down to security, it has no return per se, but a Gold mining share might."

"Bei Gold geht es um Sicherheit, es hat per se keine Rendite, aber eine Goldminenaktie schon."

-Private Bank

INVESTOR VIEW

Gold paper, while providing greater liquidity, runs the risk of losing value or even becoming worthless in times of crisis compared with physical gold.

"We bought gold in bars, not in paper, because the risk of a possible complete loss with a gold paper investment outweighs the risk of losing money through physical gold. That's why we decided to have it delivered and stored in the safe at the bank."

"Wir haben Gold in Barren und nicht in Papierform gekauft, weil das Risiko eines möglichen Totalverlusts bei einer Goldanlage in Papierform größer ist als das Risiko, durch physisches Gold Geld zu verlieren. Deshalb haben wir beschlossen, es uns liefern zu lassen und im Tresor der Bank aufzubewahren."

-Institutional investor

Gold is seen to play three key roles within investment portfolios

Gold plays a vital role as a **hedge both against inflation and currency debasement.**

Respondents believe gold provides protection against both known and unknown risks within financial markets.

Interestingly, while **long-term return generator** is listed as one of the top three roles for gold as an investment asset, investors without gold allocations cited a lack of return as a key barrier to investment.

TOP THREE What role does gold play in your portfolio?



Inflation Hedge



Hedge against
currency
debasement



Long-term return
generator

There is appetite for gold as half of all respondents (10 out of 20) expect their allocation in gold to increase over the next 3 years

This expected increase in gold allocation is driven by perceived uncertainty across the global economy, anticipated hyperinflation and the associated currency devaluation.

The ongoing impact of the global pandemic is also a contributing factor fuelling uncertainty in the short term.

7 out of 20 respondents said they don't expect their allocation to gold to change in the next three years.

Of those, over half (4 out of 7) do not hold any allocation to gold across their portfolios, indicating a general unwillingness amongst those who don't invest in gold to consider it in future.

Do you expect your allocation to gold to change in the next 3 years? If so, how?*

YES ↑

10
out of 20

YES ↓

1
out of 20

YES ↑↓

1
out of 20

NO

7
out of 20

"I have many clients for whom gold is like a life insurance policy. And there is more demand for it, so it will go up. Whether I think it makes sense is another matter. Gold also always has a strong psychological force."

"Ich habe viele Kunden, für die Gold wie eine Lebensversicherungspolice ist. Und da es mehr Nachfrage gibt, wird es auch steigen. Ob ich das für sinnvoll halte, ist eine andere Sache. Gold hat auch immer eine starke psychologische Kraft."

Family Office

"The more unsettled the markets, the greater the demand for gold. And look at what's going on out there, with Covid and inflation and all this drama."

"Je unruhiger die Märkte sind, desto größer ist die Nachfrage nach Gold. Und schauen Sie sich an, was da draußen los ist, mit Covid und Inflation und diesem ganzen Drama."

Asset Manager

Drivers for investment in gold include its hedging ability and the protection and security it offers

Protection against inflation

- Gold is seen as an effective hedge against inflation as well as other risk factors
- "Gold belongs in every traditional portfolio"

Crisis Resilience

- An effective asset class to diversify and spread risk across portfolios
- "Safe Haven"
- A security blanket and life insurance for investors

High emotional value

- Provides emotional security
- This was particularly relevant for Family Offices with requests from clients to invest in gold or hold more gold than recommended

Barriers to investment are largely down to gold being viewed as an illiquid asset class with limited returns

Limited returns

- Does not yield interest or the kind of dividends that investors that welcome more risk and higher returns value
- As uncertainty settles, gold prices are expected to fall - losing value

Other asset classes offering better returns and a degree of protection

- Cryptocurrency is considered a direct competitor to gold when considering investment assets and has been flagged as an alternative investment.

Expensive

- The price of gold is perceived to be high.
- High storage costs are also factored into considerations.

Emotional associations with gold exist amongst institutional investors

Unlike other investments, gold has emotional connections.

Gold as an investment asset, but also as a precious metal, has certain associations for investors.

Being considered a safety net, the topic of gold triggered emotional responses with respondents, with some recounting memories of being given gold by family members or of being taught the value of gold in moments of crisis.

Alongside these very strategic investment strategies, investors hold their own emotional attachments or views of gold.

"Gold is a very emotional subject and we don't have that with other investments."

"Gold ist ein sehr emotionales Thema, das haben wir bei anderen Anlagen nicht so."

Investment Adviser

"This really has something to do with the end of the world, with the end of the war, famine. We had that here in Germany as well. I mean, that was before my time, but the stories I've heard about it are still very much in the flesh."

"Das hat wirklich etwas mit dem Ende der Welt zu tun, mit dem Ende des Krieges, mit dem Hunger. Das hatten wir hier in Deutschland auch. Ich meine, das war vor meiner Zeit, aber die Geschichten, die ich darüber gehört habe, sind noch sehr lebendig."

Private Bank



Appendix

Survey questions

1. Please list the top 3 factors or objectives that drive your short-term (<1 year) asset-allocation?

Multiple code

Liquidity concerns
Portfolio rebalancing
Interest rate projections
Inflationary expectations
Return objectives
Other *(please specify)*

2. Please list the top 3 factors or objectives that drive your long-term asset (+3 years) allocation?

Multiple code

Liability matching
Return objectives
Inflationary expectations
Portfolio rebalancing
ESG goals
Other *(please specify)*

3. Do you expect to increase your allocation to alternative assets within the next 1-3 years? If so, what's driving this?

Multiple code

Low bond yields
High equity valuations
Diversification requirements
Going beyond the 60/40 rule (60% stock / 40% bond)
Other *(please specify)*

4. Do any of your investment portfolios hold an allocation to gold?

Single code

Yes
No

5. What percentage of your investment portfolio is allocated to gold?

Open text response

6. How do you hold an allocation to gold?

Multiple code

Exchange-traded products (ETPs)
Gold mining stocks
Vaulted bullion

Futures
Multi asset fund/DGFs
Other derivatives (options, swaps)
Other *(please specify)*

7. What role does gold play in your portfolio?

Multiple code

Diversifier
Liquidity provider
Inflation hedge
Hedge against currency debasement
Long-term return generator
Other *(please specify)*

8. Why does your portfolio currently not have an allocation to gold?

Single code

You have a target allocation in mind but are yet to invest
You have considered an allocation in the past but didn't feel it was the right time
This is not an investment area you have prioritised/considered
Other *(please specify)*

9. Do you expect your allocation to gold to change in the next 3 years? If so, how (increase/decrease)?

Single code

Yes
No

10. What's driving your views on gold and how do you see gold playing a role in the future?

Open text response

December2021

Thank you,

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