Gold – Investment thesis

In India, traditionally gold has been considered more as an essential than as an investment. Investment in gold has largely been through physical gold like jewellery & gold bars. Gold is also one of the asset class which is usually ignored, but must find an allocation in every investor's *financial portfolio*. This is because allocation to gold in the portfolio helps in reducing overall volatility and provides an inherent hedge to the portfolio across various market/interest rate cycles and against inflation. Historically, gold has generated positive returns in both good and bad times, proving its importance in all financial portfolio allocations to the tune of 5%-7%.

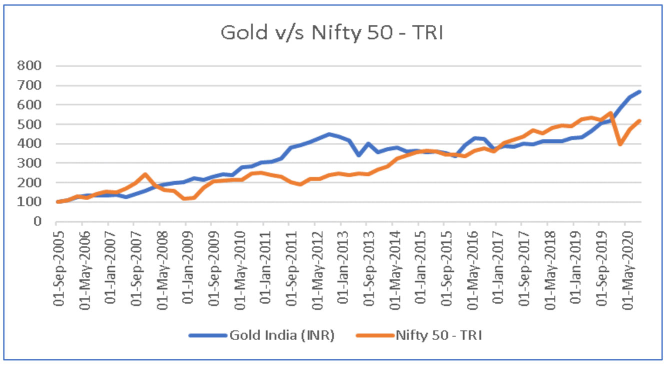
Why now –

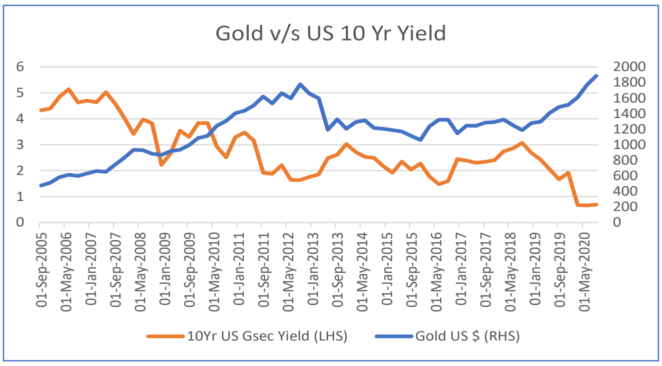
Interest rates globally, driven by expansionary fiscal policies, are being reduced to near zero to make money cheaper and encourage people and businesses to borrow, spend and invest. Interest rates are expected to remain low for some more time. Historically it has been observed that gold does well in such cycles.

Longer term return (CAGR) from Gold (3 yr rolling return for last 10 year) has been in the range of -9% to 25%. On an average gold has returned **9% CAGR** which makes it a good asset class from investment perspective as well.

Horizon (yrs)/Return (%)	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	7 Yrs	10 Yrs	Avg 3Yr Rolling Return (over 10Yrs)
Gold	32.2	27.1	18.4	12.1	13.7	7.7	9.0	**9.1**
NIFTY 50 - TRI	6.5	9.2	7.4	9.5	9.1	11.4	8.2	10.5
Crisil 10 Yr Gilt Index	9.0	12.1	7.1	6.7	7.7	8.1	7.3	6.5

CAGR Returns as of 30th Sept 2020





Source – Gold.org, Investing.com & ACE MF

Sovereign Gold Bonds (SGB)

SGBs are issued by the Reserve Bank on behalf of Government of India. They are substitutes for holding physical gold as investors must pay for the purchase in cash, and the bonds will be redeemed in cash upon maturity.

Key Advantages:

1. No Storage risk or cost, No credit risk
2. Maturity value linked to market price of gold – no management charges, no making charges
3. Additional interest earning in addition to market price linked return
4. Can be used as collateral for loan
5. No taxation on capital gain if held till maturity
6. Tradeable on stock exchange (demat mode)

Key Features:

Who can invest	Individuals, HUF, Trusts, charitable Institutions
Tenor	Period of 8 years with exit after 5th year on interest payment date
Min Investment	1 gram
Max investment	4KG for individuals & HUF, 20KG for trust and others per F.Y.
Rate of Interest	2.5% p.a. payable semi-annually on investment amount

SGB is one of the best ways to invest in gold for the long term.

As gold prices have rallied in the last 1 year, and expected to be volatile in the medium-term, long term allocation to gold should be done through staggered investment in forthcoming tranches of SGB over the next 5-6 months.

Forthcoming Series	Subscription Date
2020-21 Series VIII	Nov 9 - 13
2020-21 Series IX	Dec 28 - Jan 1, 2021
2020-21 Series X	Jan 11 - 15
2020-21 Series XI	Feb 1 - 5
2020-21 Series XII	Mar 1 - 5