

Key Findings

Attitudes towards gold as an asset class amongst private banks, HNWs and UHNWs

Completed by

Scorpio Partnership

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Overview

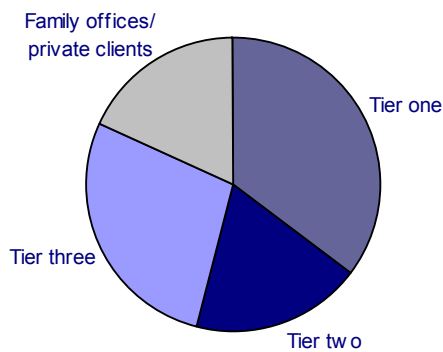
Scorpio Partnership was commissioned to assess the attitudes and appetite for gold as an asset class amongst non-institutional clients. Essentially this project sought a deeper understanding of how and why gold is purchased for investment. It also examined the investment needs of end clients in terms of accessing this commodity either directly or through third parties. The objective with this information was to develop a clear strategic overview of the demand and supply issues. Excerpts of the findings are provided below.

Methodology

During March and April 2007 Scorpio Partnership identified and conducted qualitative interviews with 65 private banks, family offices and private clients worldwide. The research was geographically diverse and 19 countries were targeted. The institutions in the sample have total private client assets under management in excess of USD4.5 trillion.

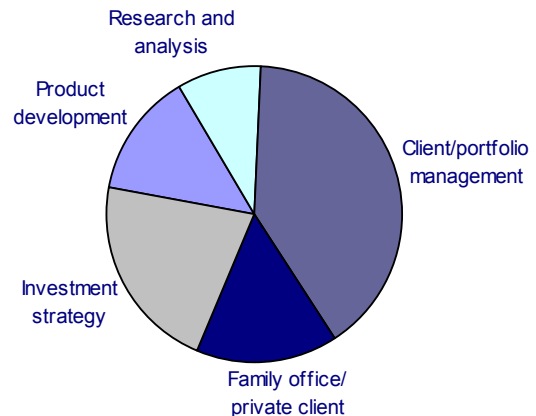
This represents approximately 28% of all private client assets managed by private banks worldwide based on the *Scorpio Partnership Private Banking KPI Benchmark 2007*, which estimates the assets managed by all private banks at USD16.0 trillion.

Figure 1: Size of private banks in the sample group



Tier one = private bank with AUM >USD200bn
 Tier two = private bank with AUM USD40bn – USD200bn
 Tier three = private bank <USD40bn

Figure 2: Job function of interviewees in the sample group



Source: Scorpio Partnership

Due to the sample size and qualitative nature of the interviews, quantitative data included in this report are used for indicative purposes or to highlight general trends.

Key Findings

➤ **80% of the private banks surveyed are allocating to gold**

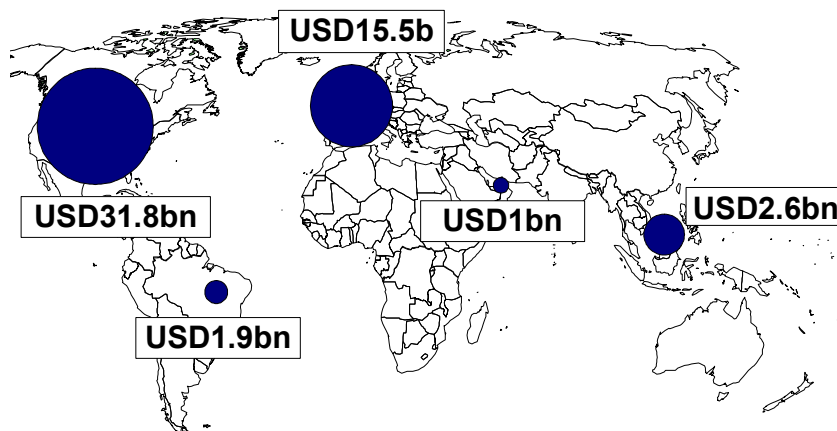
80% of the private banks surveyed are currently allocating to gold instruments. Typically these private banks and family offices are allocating to gold as part of their benchmark portfolio weightings. The majority have a 5%-6% allocation to commodities with a median of 0.5% invested in gold instruments for HNW clients. The median allocation to gold was slightly higher for UHNW clients at 1.0%.

The gold investment is usually a portion of the commodity allocation in the portfolios. The majority of the private banks in the study have a set allocation to commodities with a median percentage invested in gold instruments. Respondents indicated that the median allocation to gold was slightly higher for UHNW clients than for HNW clients.

The majority of respondents also indicated that there were no geographical variances in the allocation to gold because the allocation is of a benchmark nature. However, there are certain markets where local players have a higher benchmark allocation to gold. Moreover, it was indicated that in certain markets there is a greater cultural affinity with gold and therefore greater client demand.

These findings suggest that HNW and UHNW clients whose assets are intermediated by private banks are most likely to be invested in gold. Furthermore, they are likely to be invested according to benchmark weightings prescribed by the private banks' investment committees.

Figure 3: Estimated intermediated allocation to gold for UHNW and HNW investors.



Source: Scorpio Partnership

➤ **Safe harbour and US dollar hedge tops reasons for investing in gold**

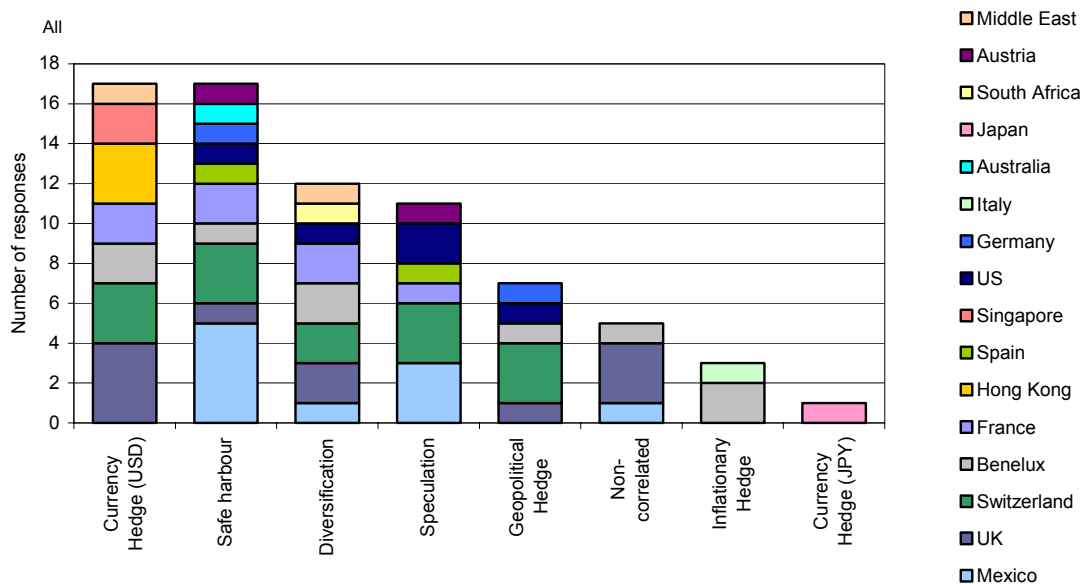
The majority of participants indicated that gold is a hugely flexible asset and can be accessed through a variety of instruments. The leading reasons for investing in gold were split equally between the desire to hedge against the US dollar and the fact that gold provides a safe harbour. Moreover, the responses also show that capital preservation is a more important factor than growth.

The use of gold for dollar hedging and as a safe harbour both stand in stark contrast to the low overall allocation to gold as an asset class.

On a segmented basis, the responses suggested that UHNW investors are more likely to be invested in gold as a safe harbour than in its use as a US dollar hedge, whereas HNW investors are more typically invested in gold as a hedge against the US dollar.

On a geographical basis, the issues relating to currency hedging were more prevalent in the responses from Asia. Whereas, the issues relating to the safe harbour offered by gold were more relevant to offshore clients from the major offshore centres.

Figure 4: Reasons for investing in gold – all participants



Source: Scorpio Partnership



➤ **Strong polarised sentiment towards gold**

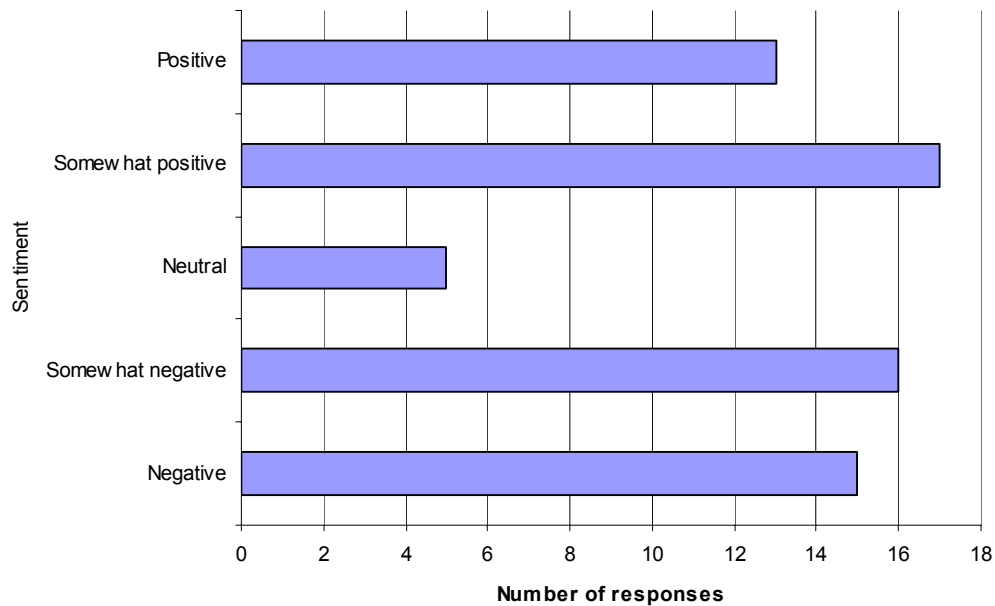
Sentiment to gold as an investment opportunity was strongly polarised among the private banking professionals who were interviewed. At the extremes there were a significant number of participants who were highly positive on the asset class and an equal number who were highly negative. Moreover, only a handful of the interviewees were neutral on gold as an asset class.

The negative sentiment was characterised by a drift away from gold as an asset class linked to the rise of other instruments such as private equity and property. This was particularly true in major financial and private banking centres which represented lower allocation to gold overall. It was also notable that while many of the participants could identify the portfolio benefits of gold, few were able to comment specifically on the fundamental drivers of the asset class.

However, the research indicates that at least half the market still sees positive characteristics in gold. This is linked to gold's recent bull run and the domestic and foreign policy of the US which has increased its profile as a safe harbour.

Of note, however, while many of the respondents indicated positive sentiment, only a small minority would actively steer a client towards gold. A number of the respondents also commented that clients rarely approach them with a request for gold investments.

Figure 5: Sentiment towards gold



Source: Scorpio Partnership



➤ **Physical gold emerges as preferred instrument to access gold**

The research indicates that there are three factors at play when investors consider gold instruments. First, there are those investors who pursue a “buy and hold” strategy. These investors will own the physical asset, either in custody or through a gold account, certificates or an ETF.

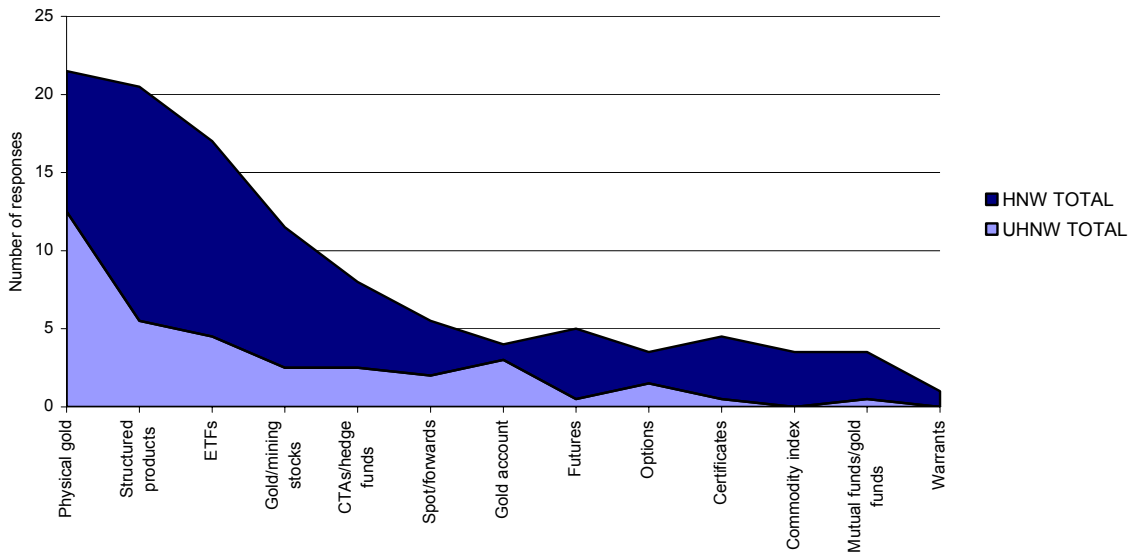
Second, speculative investors look towards derivative instruments and to a lesser extent physical gold.

Third, for clients who wish to delegate their investment decisions, structured products are typically used to implement the benchmark strategic asset allocation to gold usually over a three or five year horizon. These products are typically not backed by physical gold.

Structured products are often being recommended to end-clients on the basis that they counter negative characteristics of gold as an asset class, but at the same time their structures may cancel out the positive benefits of gold as a liquid, high-value, tangible asset that can be accessed at a relatively low brokerage cost in many forms.

The demand for structured products is far higher in countries with mature financial markets, like the US, UK and Switzerland, where banks and clients frequently use them in lieu of other instruments.

Figure 6: Gold instruments used in HNW and UHNW portfolios



Source: Scorpio Partnership

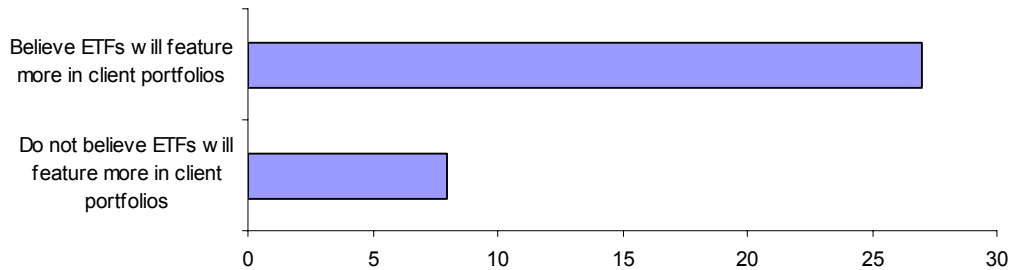
➤ **All ETFs are equal but some ETFs are more equal than others**

Given that ETFs have been widely accepted by the private banking community, it was not surprising that those who used ETFs were likely to use gold ETFs for some part of their clients' exposure to gold. However, while most of the advisors in the study indicated their belief that gold ETFs are a suitable product for HNW and UHNW clients, few believed it will feature more in client portfolios. Many responses suggested that there is little client demand for specific gold strategies, so most client portfolios are allocated via a standard solution, which will often use structured products for the benchmark gold allocation.

The gap between those that use ETFs and those that use gold ETFs is also due to a lack of visibility for the gold ETF providers in the market or, to a much lesser extent, negative sentiment by advisors and clients regarding gold as an investment. Essentially advisors have accepted that ETFs provide a low-cost way to gain exposure to an asset class, but they are either not aware that a gold ETF product exists, or they do not know in which client portfolios or scenarios it is beneficial. Alternatively, although this is a minority view, they do not regard gold as a suitable investment for HNW or UHNW clients.

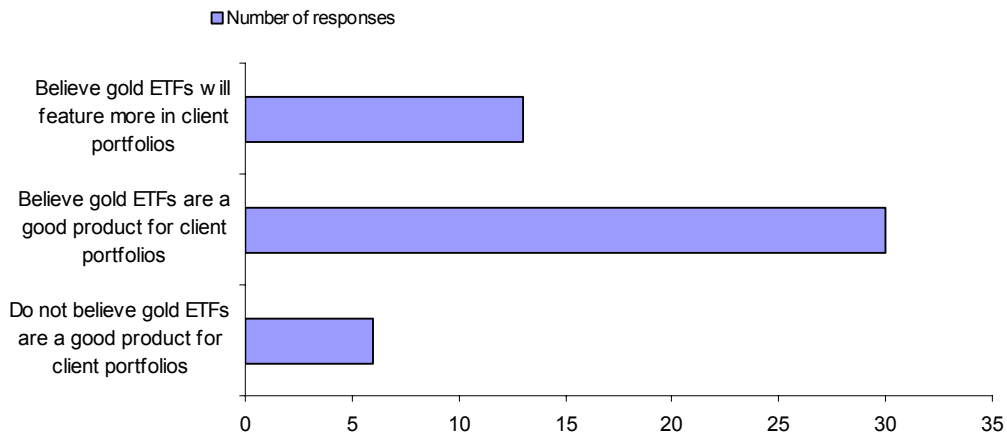
In cases where clients have an active interest in gold, if the advisor does not have a detailed understanding of the benefits of using a gold ETF product in specific client scenarios, most will defer to product teams to select the most appropriate gold investment product or structure a tailored solution.

Figure 7: Future use of ETFs



Source: Scorpio Partnership

Figure 8: Current use of gold ETFs.



Source: Scorpio Partnership

About Scorpio Partnership

Scorpio Partnership is a strategy consultancy to the wealth management industry and is based in London. The firm, founded in 1998, has conducted more than 300 assignments for over 120 institutions in private banking, fund management, family offices, technology and resource management, as well as for related service providers to the wealth management industry. Projects have been undertaken globally. The firm is independent and owned by management.

Scorpio Partnership specialises in qualitative interviewing of high net worth individuals and wealth management industry professionals to support strategic assessments and future initiatives. The information collected from these interviews forms the foundation for strategic recommendations to clients. Scorpio Partnership bases its interviews on an assignment brief and an interview issues guide that is developed in conjunction with the client.

In April 2007*, Scorpio Partnership was voted the best global consultancy to the wealth management industry for the second consecutive year and again ranked ahead of the top three global management consultancy firms.

**WealthBriefing: April 2007*