



Product Review

iShares Physical Gold ETF

ISSUE DATE 21-12-2023

Key information

FUND MANAGER	BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED
ASSET CLASS	ALTERNATIVES
SECTOR	GROWTH ALTERNATIVES (HIGH)
SUB SECTOR	COMMODITY - PASSIVE
INVESTMENT TYPE	EXCHANGE TRADED FUND ('ETF') LISTED ON THE AUSTRALIAN STOCK EXCHANGE ('ASX')
PDS OBJECTIVE	THE FUND AIMS TO PROVIDE INVESTORS WITH THE PERFORMANCE OF THE SPOT PRICE OF GOLD, BEFORE FEES AND EXPENSES.
UNDERLYING FUND	ISHARES PHYSICAL GOLD ETC
INDEX PROVIDER	LONDON BULLION MARKET ASSOCIATION ('LBMA')
UNDERLYING INDEX	LBMA GOLD PRICE PM FIXING
DERIVATIVE USE	NOT USED
SECURITIES LENDING	NOT USED
LISTING DATE	OCTOBER 2023
DISTRIBUTION FREQUENCY	N/A
FUND SIZE	\$23.12M

Fees & costs (% per annum)

MANAGEMENT FEES AND COSTS	0.18
PERFORMANCE FEE COSTS	0
NET TRANSACTION COSTS	0
ANNUAL FEES AND COSTS (PDS)	0.18

WHERE MANAGEMENT FEES & COSTS IS NULL "-" NO DATA HAS BEEN PROVIDED AND THE ANNUAL FEES & COSTS (PDS) CANNOT BE CALCULATED. REFER TO THE PDS FOR THE FEE INFORMATION.

Daily trading information

TICKER	GLDN
52 WEEK LOW	\$24.05
52 WEEK HIGH	\$25.01
LAST PRICE	\$24.07
LAST NET ASSET VALUE (NAV)	\$24.14
PREMIUM / DISCOUNT TO NAV (DAILY)	-0.003%
AVERAGE DAILY TRADED VOLUME	74,141
AVERAGE DAILY TRADED VALUE	\$1.8M

What this Rating means

The **'Recommended Index'** rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Strengths

- The Fund provides a low cost exposure to gold prices without the necessity of holding, trading and storing physical gold bullion.
- BlackRock is an experienced global investor in physical gold bullion, managing over \$US40 billion globally.
- The Fund's Annual Fees and Cost ('AFC') is priced favourably against its peer group.

Weaknesses

- The Fund is still building a track record having launched in November 2023.
- The Fund structure is more complex than non-commodity structures, however provides access to the scale benefits of the Underlying Fund.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK	●		
CAPITAL VOLATILITY			●
SECURITY CONCENTRATION RISK			●
SECURITY LIQUIDITY RISK		●	
FOREIGN CURRENCY RISK			●

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIometrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE							●

A Standard Risk Measure score of 7 equates to a Risk Label of 'Very High' and an estimated number of negative annual returns over any 20 year period of 6 or greater. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG	●		

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Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE	●		
FEES VS. ASSET CLASS	●		
FEES VS. SUB-SECTOR	●		

Fee BIOmetrics are a function of expected total fee as a percentage of expected total return.

What is this Fund?

- iShares Physical Gold ETF ('the Fund' or 'GLDN') provides investors with a currency unhedged exposure to the spot gold price.
- iShares by BlackRock ('the Manager') passively manages the Fund.
- The Fund holds units in iShares Physical Gold ETC ('the Underlying Fund'), an Irish-domiciled fund listed in the UK.
- The Fund's returns are not currency hedged. As gold bullion is quoted and traded in USD, the returns from an AUD perspective are based not only on the performance of gold bullion, but also on the AUD/USD exchange rate performance. This has the potential to impact the returns for Australian investors in a positive or negative manner.
- The Fund disclosed Annual Fees and Costs ('AFC') totaling 0.18% p.a. This value comprises solely of the management fee and costs, which Lonsec considers to be low-moderate relative to other commodity-based products in the sector.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Lonsec notes that the Manager has produced a Target Market Determination ('TMD') which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has collected the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- The Fund provides exposure to a single asset, namely gold bullion. The price of gold is subject to a number of economic and subjective factors including supply and demand for commercial and investment purposes, investor risk aversion as well as currency fears and debasement (particularly the U.S. dollar).
- The Fund will use the internationally recognised spot gold bullion price benchmark - the LBMA Gold Price PM and the WM Reuters London 4 pm foreign exchange rate in determining the NAV for both unit creation and redemption requests.

Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
			●	●	●

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- Lonsec notes there have been no significant changes to the investment team, investment process, or risk management process since the last review.

Lonsec Opinion of this Fund

People and resources

- BlackRock is a global leader in ETFs with over 1,100 iShares ETFs listed globally. Further, BlackRock also had US\$5.95 trillion of FUM invested across its suite of ETF and Index strategies as at September 2023. These funds are managed and brought to market by BlackRock, one of the largest asset management firms globally. BlackRock has significant scale and resources for effectively managing and structuring ETFs both in Australia and abroad and has a proven track record managing over \$US40 billion in gold bullion across 'iShares Physical Gold ETC' and 'iShare Gold Trust'.
- The Underlying Fund is managed by Kyle Peppo. The team is further supported by the wider operational staff across BlackRock as well as in-house analysts and traders. There is also a Global Sector Specialist Team responsible for sector oversight, research, and analysis. The team continues to collaborate globally and utilise BlackRock's global presence which Lonsec believes adds to efficiency and scalability.
- Due to the mechanical nature of the Fund and the breadth of resources available within BlackRock globally for the management of index funds, key person risk is considered to be lower than for active style funds.
- The reference price used for transacting gold is the London Bullion Market Association ('LBMA') PM fix. This price fix is the most widely used benchmark for daily gold prices.
- All gold bullion delivered to the vehicle holding the gold will be stored by J.P Morgan ('the Custodian') in the London vault. A gold holdings list that itemises the gold bullion bars and includes specific serial number, refinery, weight and year of casting is maintained by the vault custodian. Lonsec notes that the Custodian will maintain insurance arrangements, in support of its obligations under the relevant Custody Agreement. In the event of any loss of Underlying Metal that cannot be recovered, the Issuer will be reliant on the Custodian being able to claim successfully on its insurance.

Investment approach

- The Fund invests through a widely used fund-of-fund structure. Lonsec notes the Underlying Fund does not directly hold bullion but rather is structured to receive debt securities issued by iShares Physical Metals plc. iShares Physical Metals plc is a special purpose vehicle and holds bullion. All debt is fully backed by bullion. This creates multiple layers between the investor and the physical gold bullion, adding complexity to the product.
- Historically, Lonsec found that the tracking error performance associated with this fund-of-fund structure has generally been exacerbated due to time-zone differences with the underlying holdings and the listing market of the Underlying Fund. However, Lonsec notes that BlackRock will

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be referencing the Underlying Fund's NAV rather than the more common closing price methodology used across the industry in Australia with the aim of reducing this risk. The valuation approach is based on the NAV price of the Fund and limits the timing difference between the underlying share class valued at the closing price and the reference price. Lonsec takes comfort from BlackRock confirming it followed an internal governance process to evaluate the appropriateness of this approach in Australia. Lonsec, however, will continue to monitor this valuation structure in future reviews to assess its effectiveness in meeting expectations.

ESG Integration

- Lonsec's approach to reviewing ESG integration focuses on the institutional process undertaken by a Manager to incorporate the assessment of, and decisions relating to Environmental, Social Governance factors in the selection of stocks, securities or strategies. This Fund implements an Index tracking approach to capturing market Beta. Lonsec thus acknowledges the absence of any real ability to incorporate ESG factors into the particular Fund.

Overall

- Lonsec has maintained the Fund with a 'Recommended Index' rating as part of this review cycle. In Lonsec's opinion, the Fund represents a cost-effective means of gaining ASX-listed exposure to the performance of gold bullion. The Fund's fees are viewed as very competitive in the gold ETF peer group. The referencing of the Underlying Fund's NAV rather than closing price is innovative and designed to overcome the elevated tracking error commonly seen in fund-of-fund investment structures.
- However, Lonsec notes that the Fund has a limited track record having launched in November 2023. Additionally, the Fund's structure is more complex than some peers.

People and Resources

BlackRock, Inc. is a global asset management business and provider of global investment management, risk management and advisory services to institutional and retail clients around the world. As at September 2023, BlackRock Inc. managed approximately US \$9.1 trillion with products that span active, enhanced and index strategies across various markets and asset classes. BlackRock, Inc. is publicly listed on the New York Stock Exchange (NYSE) and the company has a majority of independent directors. BlackRock Investment Management (Australia) Limited ('BlackRock') is a wholly-owned subsidiary of BlackRock Inc. BlackRock is the Investment Manager and Responsible Entity of the Fund. BlackRock Australia managed approximately A \$207.48 billion as at September 2023.

Size and experience

NAME	POSITION	EXPERIENCE
		INDUSTRY / FIRM
JANE KIM	HEAD OF ASIA PACIFIC EX JAPAN PORTFOLIO MANAGER	15 / 7
KYLE PEPPLO	PORTFOLIO MANAGER IN EMEA SYNTHETICS TEAM	20 / 6

Investment Approach

Overview

For the Underlying Fund, BlackRock employs a passive investment strategy to track the performance of the spot gold price, before fees and expenses.

The Underlying Fund does not directly hold bullion but rather is structured to receive debt securities issued by iShares Physical Metals plc. The Underlying Gold Securities are debt securities secured by physical gold bullion. BlackRock manages over US\$40bn in gold bullion through numerous exchange listings.

Each unit of the Underlying Fund has a 'gold entitlement' attached to it. This 'gold entitlement' as at 6 November was approximately 0.01946 fine troy ounces. However, this will reduce daily by the annual management fee.

Underlying index

The Fund is referenced and benchmarked to the LBMA Gold Price PM Fixing ('the Underlying Index').

Transparency

Information related to value of the assets under management, NAV and documents such as a daily bar list and the quality of the gold bars are available on the Manager's website. However, unlike some peers, the Fund does not publish an intraday NAV.

Liquidity

The Fund had \$11.68 million as at December 2023, although this feeds into the Underlying Fund's much larger pool of assets of over US\$25 billion. Lonsec notes that the Fund has a recent inception date, and expects the FUM to grow over the medium term. Lonsec will continue to monitor how demand for the Fund impacts its liquidity and bid / ask spreads.

The Fund offers investors liquidity via the ASX, supported by four market makers (one of them being the dedicated market maker) that are obligated to provide continuous liquidity to the market by maintaining pre-agreed spreads and volumes on the ASX.

Fees and Indirect Costs

The Fund's AFC of 0.18% p.a. is very competitive in comparison to its peer group.

The Fund is newly launched and bid / ask spread cannot yet be readily estimated. The bid / ask spread for an ETF represents the average daily spread over a one-year period but may not reflect the actual spread incurred. The bid / ask spread for the Fund is 0.14% from Inception to 16 November 2023.

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Fee comparison

FUND NAME	AFC (% P.A.)	AVERAGE
		BID/ASK SPREAD (%) P.A.)
ISHARES PHYSICAL GOLD ETF (GLDN)	0.18	0.14 [^]
GLOBAL X PHYSICAL GOLD (GOLD)	0.4	0.07
PERTH MINT GOLD (PMGOLD)	0.15	0.11
VANECK GOLD BULLION ETF (NUGG)	0.25	0.27 [^]

Source: ASX daily average bid / ask spread over 12 months to September 2023

[^]Fund has less than 12 month's track record.

that cannot be recovered, the Issuer will be reliant on the Custodian being able to claim successfully on its insurance.

Further information

Further information can be obtained by calling BlackRock on 1300 474 273 or visiting: www.blackrock.com/au.

Performance

The Fund commenced on 1 November 2023 and is still establishing a track record. Lonsec prefers to observe a Fund's performance over an investment cycle before drawing any meaningful conclusions on fund performance.

Risks

An investment in the Fund carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the relevant Product Disclosure Statement and should be read in full and understood by investors. Lonsec considers the major risks to be:

Currency risk

Any investment in the Fund is not currency hedged and the value in AUD terms will fluctuate with movements in the AUD/USD exchange rate as the spot price of gold bullion is denominated in USD.

Performance risk

The value of, and returns (if any) from an investment in the Fund will depend upon the performance of the underlying investments. Bullion markets have the potential to suffer from market disruptions or volatility caused by shortages of physical bullion.

Market-making risk

The Fund takes on counterparty risk with regard to its market-making activities. Counterparties may default on their contractual obligations, potentially exposing investors to some financial losses.

Tracking error risk

The Manager seeks to minimise the tracking error against the index the Fund aims to track. There is no guarantee that this objective will be met. Additionally, the use of a feeder-fund structure has the potential to result in higher observed tracking error relative to holding investments directly. BlackRock has sought to minimise the potential for higher tracking error associated with the fund-of-fund structure by referencing the Underlying Fund's NAV rather than its closing price in the Australian fund's valuation process.

Insurance Risk

The Custodian will maintain insurance arrangements, in support of its obligations under the relevant Custody Agreement. In the event of any loss of Underlying Metal

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Glossary

[Click here for the glossary of terms.](#)

About Lonsec

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