

THE PORTFOLIO VIEW \*:

# A Golden Opportunity for Diversification

BlackRock Portfolio Analysis and Solutions  
BlackRock Natural Resources  
June 2020

\* A series of short papers to provide a high-level view on themes and topics BlackRock believes you should consider when implementing changes to your Asset Allocation, and on which we can assist you.

Within our research, the macro-economic risks of an average European investor portfolio in 2019 relied heavily on the **Economic Growth factor**. But investors have now seen **COVID-19 outbreak derail global economic growth** and it remains unclear what the full implication of the pandemic will be. Traditional forms of getting diversification could be much more limited due to the continued trends of **low or negative yields in global bond markets and rising correlations between equities and bonds**. So as investors seek to raise resiliency and build diversification, the consideration of alternative allocations in portfolio is vital.

One such alternative allocation to **consider is gold**.

An allocation that has been widely used as a **“safe-haven” asset for decades**, and arguably more liquid, transparent, and lower cost than other alternative strategies. The **correlations between gold and global equities have remained low**, giving rise to its ability to act as a strategic diversifier in portfolios. The **current central bank policy and fiscal deficit** are here to stay in this extraordinary environment, and these factors also support the use of gold as a strategic allocation.

**So why consider gold and gold equities today?**

We see a number of supportive factors for the gold price and gold equities over the next 12-18 months:

- Gold should continue to benefit from ‘safe-haven’ buying amid the weaker global economic growth environment caused by the COVID-19 pandemic.
- Meanwhile, 2019 was the first year since 2008 that gold mined production fell year-on year, it was also the tenth consecutive year of net positive central bank purchases, a trend we expect to continue (source: World Gold Council, April 2020).
- Turning to gold equities, gold prices have strengthened whilst companies’ costs have generally been stable to down, so this could mean that the sector enjoys strong earnings growth at a time when very few other sectors will be doing the same.
- Gold companies also appear to remain focused on shareholder returns, with two major gold producers recently announcing dividend increases and one announcing a buyback.

Desired outcome	Physical Gold	Gold Equities	What our analyses in the following pages show for each desired outcome:
Reduce portfolio risk and drawdowns			~2% reduction in drawdown returns from Jan '20 to Mar '20 when adding Physical Gold, and reduction in overall risk
Increase diversification from equity markets			Gold equities has a lower correlations to global equities, and less reliance on economic growth.
Increase potential for alpha returns			Higher returns and lower risk for Gold Equities (BlackRock Gold and General Fund) vs. FTSE Gold Mines Index since fund inception

Source: BlackRock, as at May 2020. For illustrative purposes only. Outcomes cannot be guaranteed. Any opinions and/or forecasts represent an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. There is no guarantee that any forecasts made will come to pass.

**Forward looking expectations on gold prices?**

The gold price will likely be supported by equity market volatility and the unprecedented global stimulus which is occurring in response to the current crisis. Zero interest rate policies from the major central banks suggests that real interest rates will remain lower for longer. Lower real interest rates have historically been supportive for the gold price, whilst renewed money printing through expanded quantitative easing may also be positive for the gold price and other real assets, particularly with governments taking on increased debt to support their economies through the coronavirus impact.

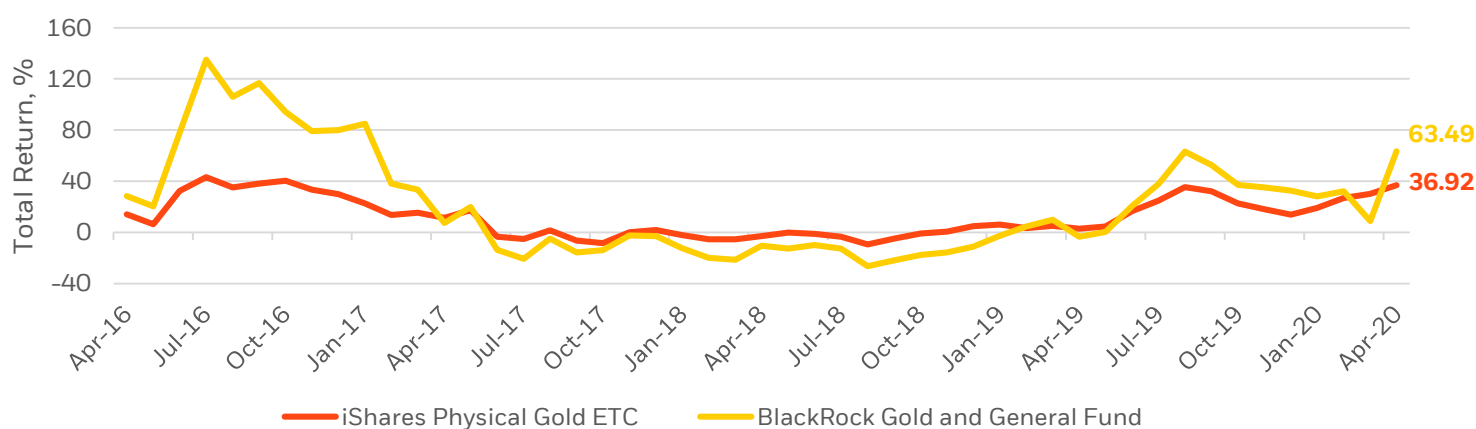
**The findings from the next page show how allocating to Gold could depend on investment outcomes...**

**Ways to invest in physical gold and gold equities with BlackRock:**

	iShares Physical Gold ETC "Physical Gold"	BlackRock Gold and General Fund "Gold Equities"
Ongoing Charges Fees (%)	0.19%	1.17% <i>for D share class</i>
ISIN	IE00B4ND3602	GB00B5ZNJ904 <i>for D2 (dist) share class</i>
5-year beta to physical gold	0.98	1.69
5-year correlation to physical gold	0.99	0.74

References to specific investments are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such investments.

**Rolling Annual Returns, %**



Discrete Performance	May 2015 - April 2016	May 2016 - April 2017	May 2017 - April 2018	May 2018 - April 2019	May 2019 - April 2020
iShares Physical Gold ETC	13.99	11.26	-2.85	2.91	36.92
BlackRock Gold and General Fund	28.43	7.22	-10.44	-3.52	63.49

**The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.**

Source: BlackRock, Morningstar, MPI. Time Period for 01/05/2015 – 30/04/2020. Currency = GBP. Monthly observations. Returns are shown net of management fees. The D2 share class has been used for the BlackRock Gold and General Fund. This information demonstrates, in part, the firm's Risk/Return analysis. This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

**We begin with the average asset allocation for a "balanced" portfolio in the UK\***



- Equities
- Fixed Income
- Alternatives
- Cash



Our analyses will add 5% allocation into either Physical Gold or Gold equities.

**Physical Gold :**  
iShares Physical Gold ETC

**Gold Equities :**  
BlackRock Gold and General Fund

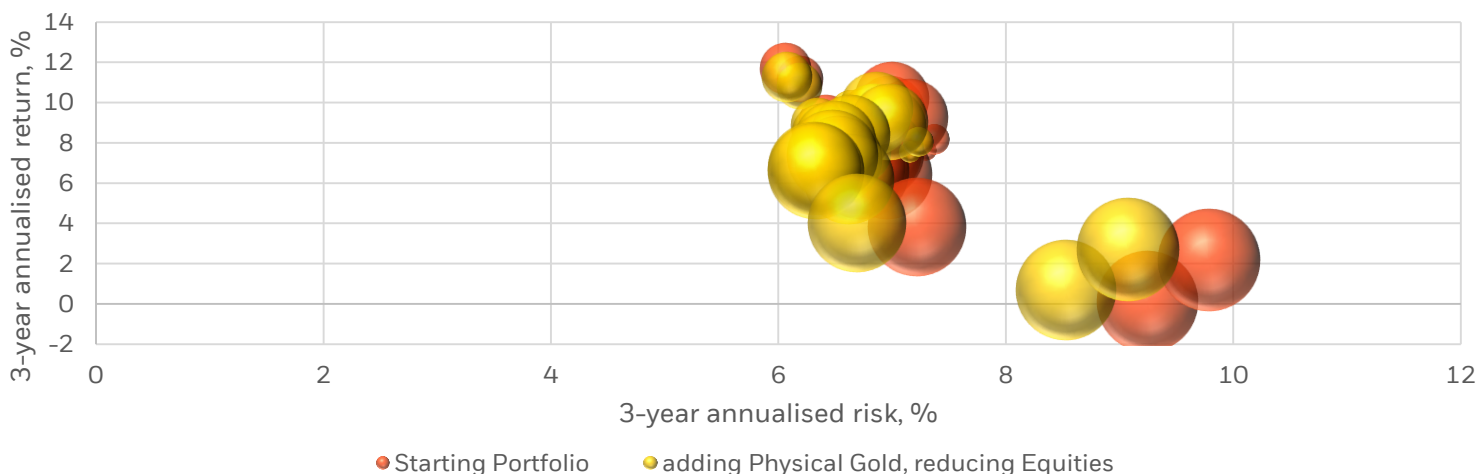
\* Asset allocation based on MSCI WMA Private Investor Balanced Index. For illustrative purposes only. Equities: 32.5% MSCI ACWI ex UK; 30% MSCI UK IMI Index. Fixed Income: 5% Markit iBoxx GBP Gilts; 10% Markit iBoxx GBP Corporates, 2.5% Markit iBoxx UK Gilt Inflation-Linked Index. Alternatives: 5% MSCI UK IMI Liquid Real Estate; 5% MSCI World Diversified Multi-Factor; 5% LIBOR 1 Week, Cash: LIBOR 1 Week.

**Desired outcome: Reduce total portfolio risk and drawdowns**

**Changes to the Starting Portfolio: Adding Physical Gold (+5%) from Equities (-5%)**

**Time series of rolling 3-year risk-return spectrum**

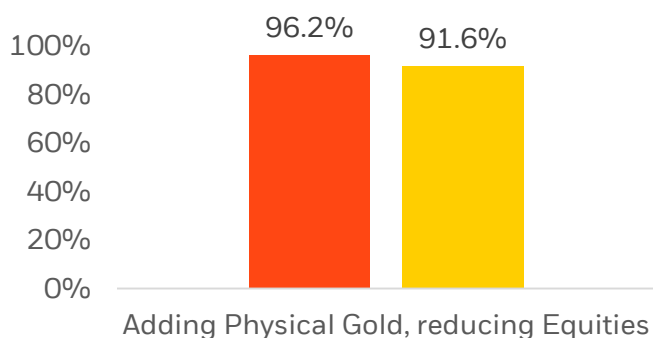
The larger the bubble size, the more recent the observation



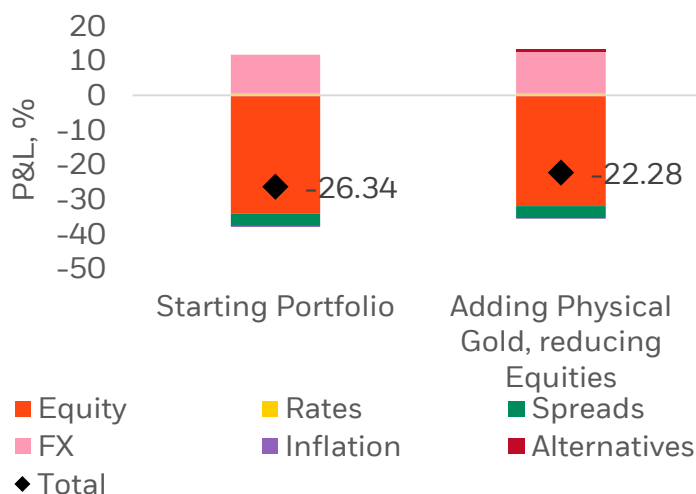
	Annualised Returns, %	Annualised Risk, %	Sharpe Ratio	Max Drawdown, % (Jan 20 – Mar 20)
Starting Portfolio	4.73	9.05	0.46	-14.58
adding Physical Gold, reducing Equities	5.10	8.53	0.53	-12.93

Discrete Performance	May 2015 – April 2016	May 2016 – April 2017	May 2017 – April 2018	May 2018 – April 2019	May 2019 – April 2020
Starting Portfolio	-1.53	19.98	5.58	5.62	-4.38
adding Physical Gold, reducing Equities	-0.63	19.16	5.04	5.46	-2.26

**Market Capture Ratios vs Starting Portfolio**



**Stress Test Scenario: Recession (2008)**



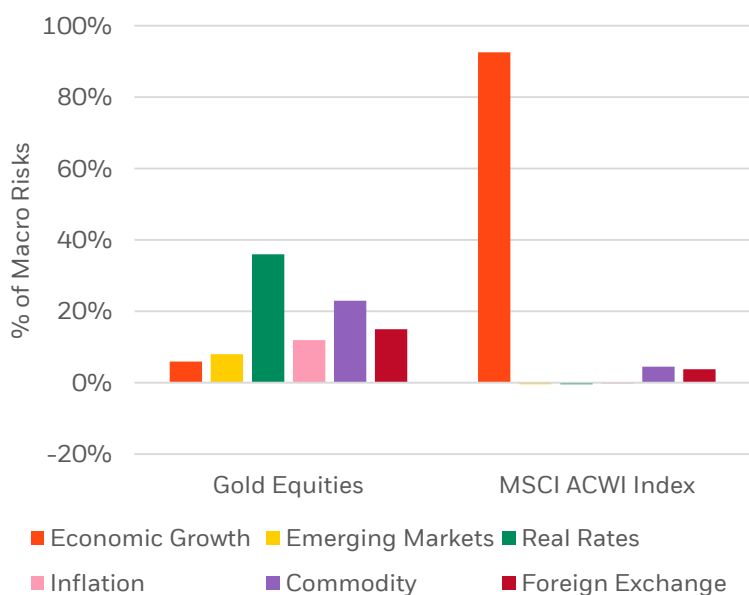
**The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.**

Source: Ex-Post: BlackRock, Morningstar, MPI. Time Period: 01/05/2015 – 30/04/2020. Currency: GBP. Monthly observations. Ex-Ante (Stress Test Scenario): BlackRock Aladdin, as at 30/04/2020. Currency = GBP. Annual rebalancing of the portfolios shown. Returns are shown net of management fees for iShares Physical Gold ETC, but indices are gross of fees. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. This information demonstrates, in part, the firm's Risk/Return analysis. This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

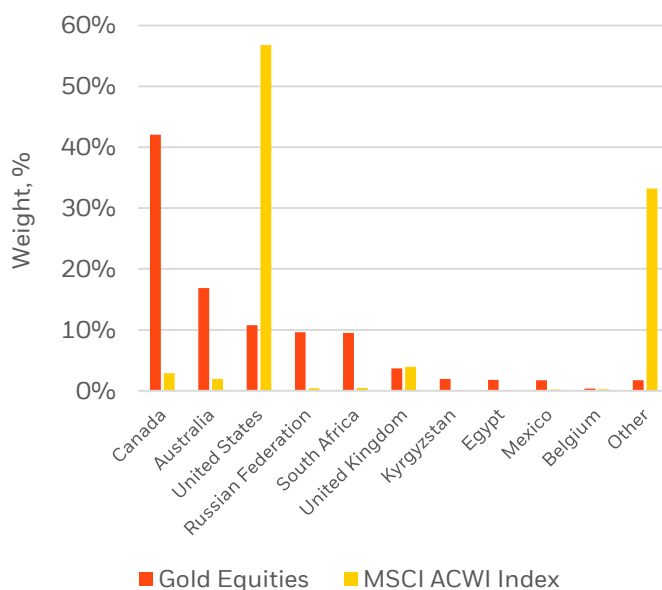
**Desired outcome: increase diversification from equities market**

**Changes to the Starting Portfolio: Adding Gold Equities (+5%) from Equities (-5%)**

**Differences in Macro Risk Factors**



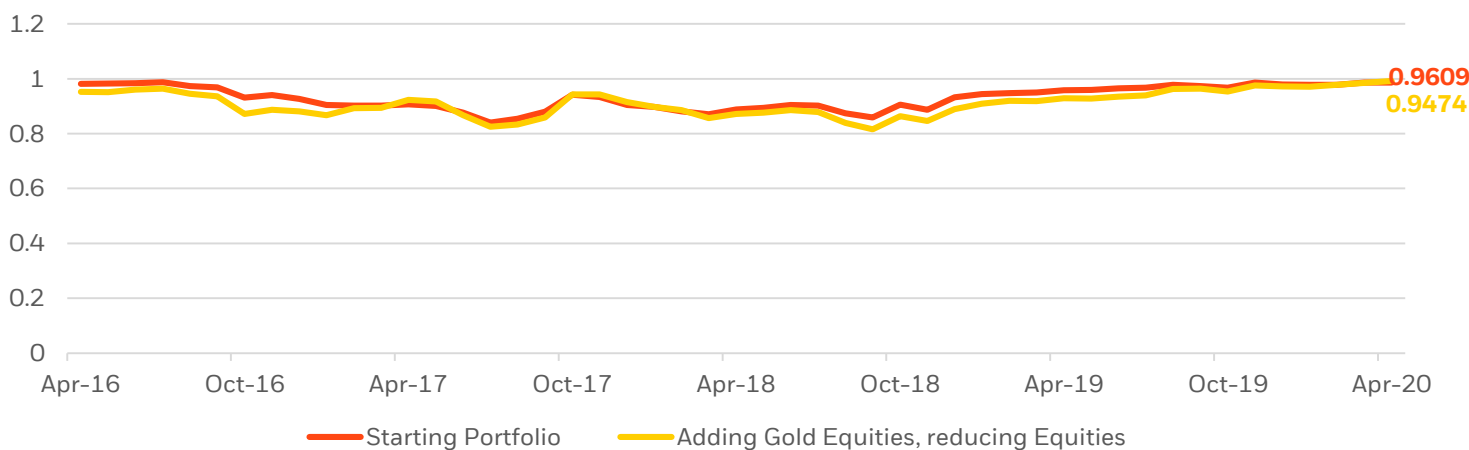
**Differences in Country Exposures**



Source: BlackRock, Aladdin®. Currency: GBP. As at 30/04/2020.

Risk Models used for the “Differences in Macro Risk Drivers” chart: BlackRock Fundamental Risk for Equities World model, and BlackRock Macro Model. 180 monthly observations that are equally weighted are used in the risk models.

**Annual Rolling Correlations against MSCI ACWI on Portfolio Level**



Discrete Performance	May 2015 - April 2016	May 2016 - April 2017	May 2017 - April 2018	May 2018 - April 2019	May 2019 - April 2020
Starting Portfolio	-1.53	19.98	5.58	5.62	-4.38
adding Gold Equities, reducing Equities	0.64	18.82	4.65	5.09	-1.29

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Source: BlackRock, Morningstar, MPI. Time Period: 01/05/2015 – 30/04/2020. Currency: GBP. Monthly observations. Annual rebalancing of the portfolios shown. Returns are shown net of management fees, except for indices. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

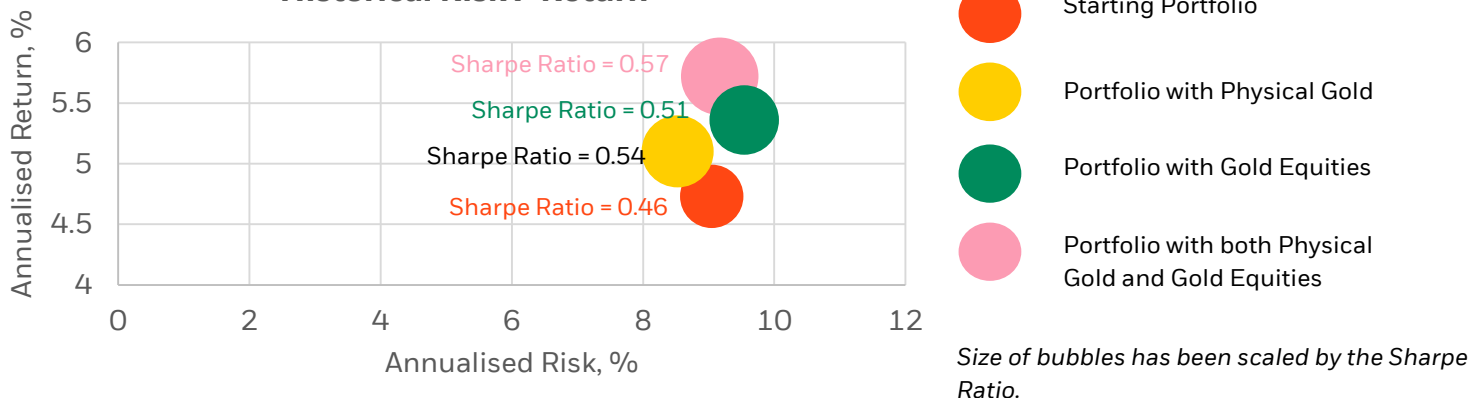
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**Desired outcome: downside management, whilst maintaining exposure to economic growth factors**

**Change from Starting Portfolio: Adding Gold Equities (+5%) and Physical Gold (+5%), Reducing Equities (-10%)**

## Historical Risk / Return

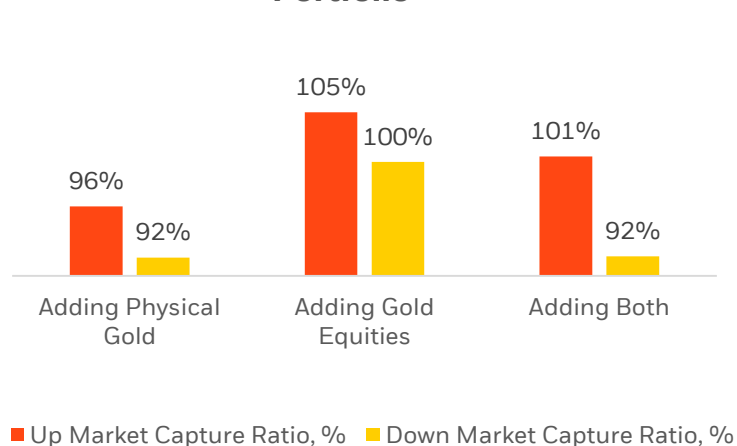


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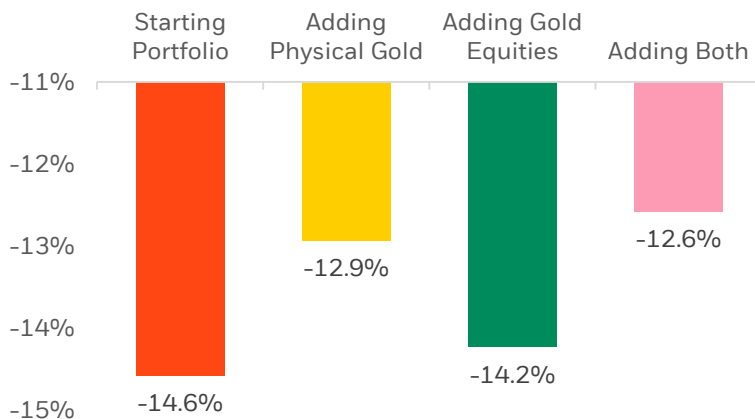
Source: BlackRock, Morningstar, MPI. Time Period: 01/05/2015 – 30/04/2020. Currency: GBP. Monthly observations. Annual rebalancing of the portfolios shown. Returns are shown net of management fees, except for indices. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

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## Market Capture Ratios vs Starting Portfolio



## Q1 '20 Drawdown Returns



Discrete Performance	May 2015 - April 2016	May 2016 - April 2017	May 2017 - April 2018	May 2018 - April 2019	May 2019 - April 2020
Starting Portfolio	-1.53	19.98	5.58	5.62	-4.38
adding both Physical Gold and Gold Equities	1.53	18.04	4.12	4.93	0.86

**The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.**

Source: BlackRock, Morningstar, MPI. Time Period: 01/05/2015 – 30/04/2020. Currency: GBP. Monthly observations. Annual rebalancing of the portfolios shown. Returns are shown net of management fees, except for indices. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

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## Why BlackRock Gold and General for your gold equity exposure?

The fund is managed by a team of sector specialists who have been managing gold funds since 1988. The team members have the resources to travel the globe visiting the mines of the companies in which they invest.

On BlackRock's Natural Resources team, the active gold portfolios are managed with a quality bias, focusing on companies with stronger-than-average balance sheets and lower-than-average costs.

This can help to manage volatility in a sector which is volatile relative to most others. Through active stock picking, the team can focus on those companies with stock-specific catalysts that should help them outperform even if the gold price remains flat e.g. they have strong growth prospects or exploration potential.

### Co-portfolio managers:



**Evy Hambro,**  
Years of experience: 26



**Tom Holl,**  
Years of experience: 14

### Annualised Standard Deviation, %

	6M	1Y	5Y	10Y	15Y
BlackRock Gold and General Fund	64.60	49.63	36.93	32.93	33.67
Benchmark: FTSE Gold Mines Index	57.60	46.22	39.81	36.24	37.51

### Discrete Performance, %

Discrete Performance	May 2015 – April 2016	May 2016 – April 2017	May 2017 – April 2018	May 2018 – April 2019	May 2019 – April 2020
BlackRock Gold and General D2	28.43	7.22	-10.44	-3.52	63.49
Benchmark: FTSE Gold Mines Index	43.08	-0.89	-9.17	-1.88	72.37

**The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.**

Source: BlackRock, Morningstar, MPI. Time Period: 01/05/2005 – 30/04/2020. Currency: GBP. Monthly observations. Returns are shown net of management fees. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. This information demonstrates, in part, the firm's Risk/Return analysis. This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

The Fund is actively managed, and the Investment Adviser (IA) has discretion to select the Fund's investments. In doing so, the IA will refer to the FTSE Gold Mines Index (the "Index") when constructing the Fund's portfolio, and also for risk management purposes to ensure that the active risk (i.e. degree of deviation from the Index) taken by the Fund remains appropriate given the Fund's investment objective and policy. The IA is not bound by the components or weighting of the Index when selecting investments. The IA may also use its discretion to invest in securities not included in the Index in order to take advantage of specific investment opportunities. However, the sector requirements of the investment objective and policy may have the effect of limiting the extent to which the portfolio holdings will deviate from the Index. The Index should be used by investors to compare the performance of the Fund.

## Want to know more?

*If you are looking to make changes to your portfolio, or would be interested in better understanding how your existing portfolio might be impacted within these current markets, speak with your BlackRock Relationship Manager and request a BPAS Portfolio Consultation today.*

### Risk Warnings

**Capital at risk.** The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

BlackRock has not considered the suitability of this investment against your individual needs and risk tolerance. The data displayed provides summary information. Investment should be made on the basis of the relevant Prospectus which is available from the manager.

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## **Product Risks**

### **iShares Physical Gold ETC**

Counterparty Risk, Gold Risk, Liquidity Risk (ETC), Precious Metal Linked Securities Risk, Shortage of physical metal, Market price of the securities

### **BlackRock Gold and General Fund**

Emerging Market Risk, Liquidity Risk, Exchange Rate risk, Equity Risk, Counterparty Risk

## **Description of Product Risks**

### **Counterparty Risk**

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Share Class to financial loss.

### **Gold Risk**

The value of gold may be subject to substantial fluctuations. Factors such as supply and demand, localised economic, political or environmental events, transportation, customs and fiscal restrictions may impact the value of gold.

### **Liquidity Risk (ETC)**

Lower liquidity means there are insufficient buyers or sellers to allow the ETC to sell or buy investments readily.

### **Precious Metal Linked Securities Risk**

The value of the ETC will be affected by movements in the price of the precious metal to which it is linked. The price of a precious metal can go down as well as up and the performance of a precious metal in any future period may not mirror its past performance. An investment in the ETC linked to a metal is not the same as investing directly and physically holding the relevant metal and there are risks attached.

### **Shortage of physical metal**

Metal markets may suffer from market disruption or volatility caused by shortages of physical metals. Such events could result in sudden increases in metal prices for a short period ("price spikes"). Changes in supply and demand for investment products offering investors an exposure to precious metals will also directly impact on the supply and demand in the market for the underlying precious metals. This may increase the volatility in the price and supply of the relevant precious metals.

### **Market price of the securities**

The market price of each ETC will be affected by the value and volatility of the metal referenced by the relevant ETC, the value and volatility of metals in general and a number of other factors. Investors should be aware that the secondary market price of the ETC can go down as well as up throughout the life of the ETC.

**Exchange rate risk:** Overseas investment will be affected by movements in currency exchange rates.

**Liquidity Risk:** Lower liquidity means there are insufficient buyers or sellers to allow the Fund to sell or buy investments readily.

**Equity Risk:** The value of equities and equity-related securities can be affected by daily stock market movements. Other influential factors include political, economic news, company earnings and significant corporate events.

**Counterparty Risk:** The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

**Emerging markets risk:** Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore, the value of these investments may be unpredictable and subject to greater variation.



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