The SA Bullion Gold Report

First Quarter 2015

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Table 1: Gold Performance to 31 March 2015 (% per annum)[1]

	Quarter[2]	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr
Gold in US Dollar	-1.6	-8.1	-13.8	-10.6	1.3	10.8
Gold in Rand	3.8	3.3	-2.4	3.6	11.7	18.2
Gold in Euro	11.7	18.1	-5.8	-3.9	6.0	12.9

[1] Based on LBMA Afternoon Fixes
[2] not annualized for periods of less than 1 year

Table 2: Quarter-End Gold Prices and Exchange Rates[1]

	Gold in $/oz	R/$ rate	Gold in R/oz[2]	$/€ rate	Gold in €/oz
31 Mar 2005	427.50	6.22	2,660.65	1.30	329.22
31 Mar 2006	582.00	6.16	3,587.74	1.21	480.11
31 Mar 2007	661.75	7.25	4,799.34	1.33	496.70
31 Mar 2008	933.50	8.13	7,586.09	1.58	589.59
31 Mar 2009	916.50	9.86	9,032.22	1.33	688.99
31 Mar 2010	1,115.50	7.31	8,154.49	1.35	825.07
31 Mar 2011	1,439.00	6.75	9,717.63	1.42	1,014.52
31 Mar 2012	1,662.50	7.68	12,776.01	1.33	1,246.63
31 Mar 2013	1,598.25	9.32	14,902.44	1.28	1,245.90
31 Mar 2014	1,291.75	10.57	13,737.29	1.38	936.59
31 Mar 2015	1,187.00	11.96	14,194.58	1.07	1,106.22

Note 1: Gold prices in US$ and € are LBMA Afternoon Fix prices
Note 2: Gold price in Rand from Rand Refinery
Note 3: Gold prices at time of writing—$1,209.00, R14,363.64, €1,103.15

Table 3: Calendar Year Performance of Gold

	% US Dollar	% ZA Rand	% Euro
2005	17.8	32.6	35.7
2006	23.2	37.0	10.2
2007	31.9	27.9	18.9
2008	4.3	41.1	9.7
2009	25.0	-0.4	21.1
2010	29.2	16.1	38.2
2011	8.9	33.0	12.6
2012	8.3	13.6	6.2
2013	-27.3	-11.8	-30.3
2014	0.1	10.4	13.4
2015 year to date	-1.6	3.8	11.7

Figure 1: Ten-Year Chart of Gold Price in US Dollar [LBMA PM Fix]

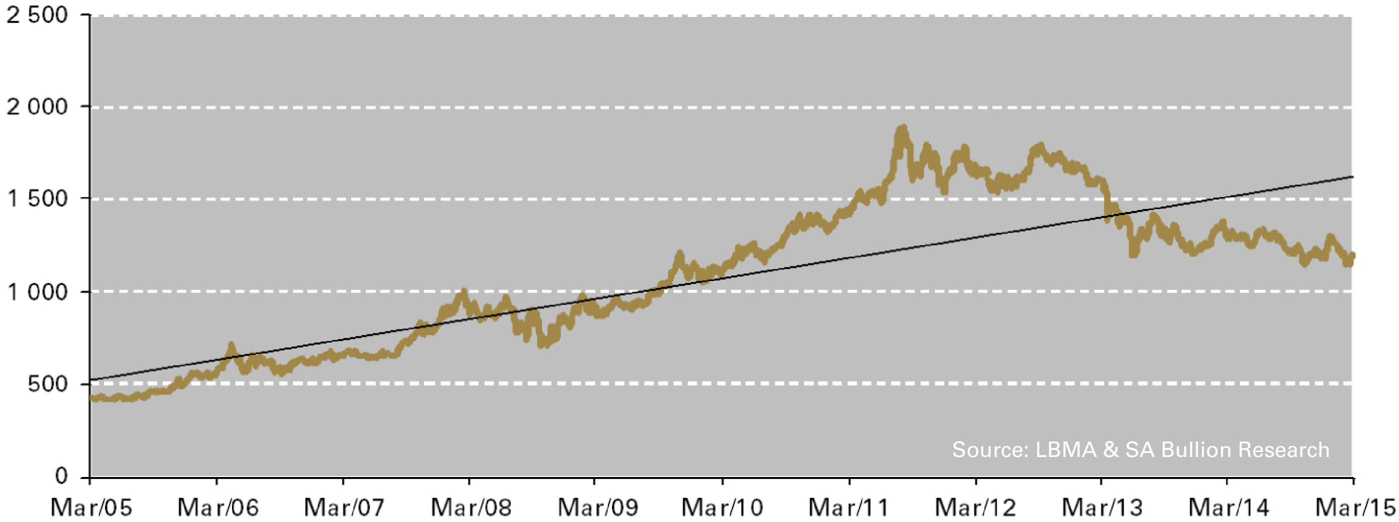
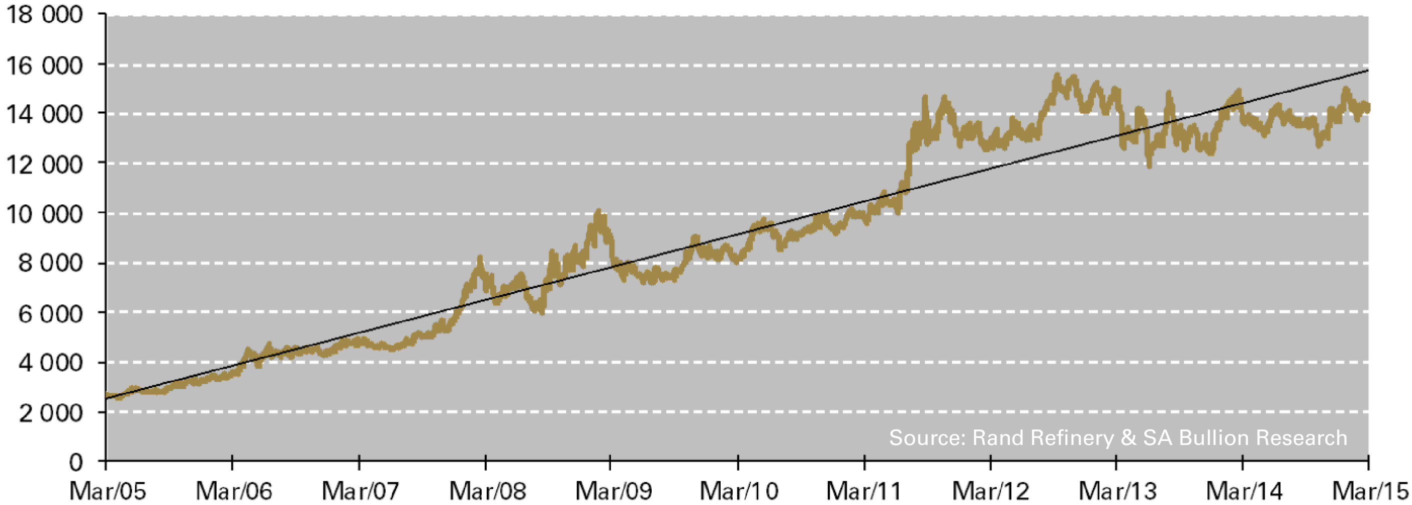


Figure 2: Ten-Year Chart of Gold Price in South African Rand (Rand Refinery first pricing)



Gold Price Action

In recent times gold price action has been a tale of currency performance. In US Dollar gold has been a poor performer in recent times. However, in Rand, gold has been a good performer in recent times and in Euro it has been a fantastic performer. In many respects this variation reinforces a central belief that we hold at SA Bullion: in the bad times, i.e. the times of credit contraction, it is especially important to diversify one's investment portfolio across asset classes and across currencies as predictability becomes all but impossible.

A Note on Liquidity

In the world of financial markets, when one talks of liquidity, it is assumed that one speaks of the quantum (or amount) of trade that is being transacted in the item under discussion – be it a currency, a commodity, a share or some other asset or financial instrument. Usually liquidity is discussed in terms of the amount of trade in a period, such as in a day, a month or a year. For example, one may talk about the liquidity in Anglo American shares, and here one may be speaking of daily buy and sell trades in terms of number of shares and in terms of monetary value.

The gold market is a very, very big market and in the usual parlance as discussed above, there is tremendous liquidity in the gold market. To give some perspective:

Total gold ever mined	approximately 180,000 tons or 5.78 billion ounces
Value of all gold[1]	$6,900,000,000,000 or $6.9 trillion
Value of central bank holdings	approx $2.5 trillion[3]
Gold mass per capita (world)[2]	approx 0.8oz or 25 grams
Gold value per capita (world)[2]	approx $960
Daily trade in physical gold (world)[4]	estimated to be between $50 and $100 billion

[1]Based on a gold price of $1,200 per troy ounce
[2]Based on a total world human population of approximately 7.2 billion
[3]Source: Bank of International Settlements
[4]Source: World Gold Council

The global gold market is an altogether impressive market, however, when we at SA Bullion view liquidity, we do not view the subject in terms of overall size or in terms of quantum of trade per day. We look at liquidity in terms of the ability of an owner to sell in times of great market stress.

Many of our long term clients will have heard us behaving like a stuck record on this message:

'Liquidity is a coward. At the first sign of trouble it is nowhere to be found.'

What we mean by this is that normal trade ('liquidity') suddenly dries up when a market becomes stressed. Therefore the true test of liquidity is not in normal markets but in abnormal markets. After all, there is a high probability that if a time comes when one desperately wants to sell a financial asset, it is at the same time as many other people wanting to do the same. It is this very reason that causes stock markets to occasionally go into freefall. It is the proverbial herd stampede for the exits.

Clearly, notwithstanding its very impressive size, the gold market could also experience a liquidity crunch, just as stock markets occasionally do. But there are two vitally important points to bring to your attention:

1. Diversification

Gold is unlike any other asset. It is quite different to shares, bonds and property. It has many similarities to currencies, and we regard *gold as the ultimate alternative currency*, but it is quite different in that it is not someone else's liability (as is the case with all other currencies). Gold stands on its own two feet (so to speak). It stands to reason therefore that gold is largely uncorrelated to other assets and behaves and trades differently to other assets in times of stress. This in our books is a very compelling reason to hold gold as a portfolio position of around 5% of one's portfolio.

The principal lesson learned from the failure of Long Term Capital Management in 1998 was that listed securities may be unrelated but the same investors and portfolios owned them, implicitly linking them in times of stress. It is in times of stress that the non-linkage of securities is most needed, but perversely most likely when the very strong linkage will be demonstrated. My takeaway points from the tremendous book *When Genius Failed* subtitled *The Rise and Fall of Long-Term Capital Management* by Roger Lowenstein are:

- If enough investors panic and sell their listed securities a dangerous undertow may distort the market;
- In a market in crisis you don't sell what you should, you sell what you can;
- The very concept of safety through diversification would merit rethinking;
- Liquidity is a straw man. Whenever markets plunge investors are stunned to find that there are not enough buyers to go around.

Physical gold bullion provides a portfolio with profound asset class and currency diversification and probably an opportunity to at least liquidate a portion of one's portfolio if needed at a time of great stress in financial markets.

2. Legal Tender

Gold offers the tremendous risk diversification benefits discussed above. But over and above this, the Krugerrand adds another whole layer of safety for our investors.

The Krugerrand is produced by the South African Reserve Bank and along with this fact comes its status as legal tender. What this means is that the Reserve Bank is obliged to accept any Krugerrand presented back to it in exchange for the market value in cash.

In the broader gold market a seller has to find a willing buyer. Of course this could get tricky in a stressed market. However, in the case of the Krugerrand, which is for all intents and purposes simply an ounce of gold (but is minted into an official coin), we have a permanent and limitless buyer irrespective of the state of the market. At SA Bullion we believe that this is a critical point in the case for investing with us. Furthermore, we have a unique arrangement with the Reserve Bank that facilitates high-speed redemption of Krugerrands to the Reserve Bank without the Krugerrands leaving the vault. Our clients exit as easily as unit trust investors exit from their unit trust investments.

I would like to thank our friend and business associate Sune Hojgaard over at LibrariumInsights.com in Europe for provoking the theme of this quarterly report. Like ourselves, Mr Hojgaard is a strong advocate for a portfolio position in gold for everyone.

Hilton Davies