2018 GOING FOR GOLD

The Appeal of Physical Gold for the Asian Wealth Market

hubbis

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FOREWORD

Martin Huxley

INTL FCStone, Head of Precious Metals for Asia

Martin joined INTL FCStone at the start of 2014 and is responsible for its precious metal activities across the Asia Pacific region. Prior to his current role, Martin spent 14 years with Standard Bank focused entirely on the natural resources sector; the last 10 years based in Hong Kong in various roles including Head of Credit Risk and subsequently Head of its Structured Finance division for the Asia region.

In December 2017 Martin was separately appointed Chairman of the Singapore Bullion Market Association by its Management Committee.

Asia has long had a love affair with gold, but never has it been so straightforward for the region's wealthy and the wealth managers they work with to buy and hold physical gold.

INTL FCStone is delighted to have teamed up with Hubbis to support this White Paper on the evolution of physical gold markets and bullion as a long-term investment opportunity for Asia's rapidly growing ranks of high net worth (HNW) and ultra-HNW individuals and families.

Our premise for this project was that since INTL FCStone established its presence in Singapore in 2006, the Asian precious metals market has evolved and matured to such an extent that many of the former logistical obstacles to investing in physical gold have been cast aside.

In brief, we felt it was time to reinforce this important message for the region's wealth industry. Not only does Asia, and especially Singapore, offer a remarkably complete and professional gold market infrastructure, but the current global economic, financial and geopolitical factors could be considered as highly supportive of the rationale to hold and grow the proportions of gold in any HNW portfolio.

We recognised early on the need to serve an expanding global customer base and had spotted gold's migration from West to East. INTL FCStone has therefore enjoyed an exciting decade-plus of growth in Asia, and we have expanded rapidly to meet customer demand, adding offices in Hong Kong, Shanghai, Beijing and Sydney.

The rise of Asian economic might, the enormous surge in spending power and the region's vast growth potential all add up to a remarkable opportunity. Hence this timely project we embarked on with Hubbis.

I would like to thank all those who participated in our high-level roundtable in late January and the survey on the gold market that was sent out to 174 wealth management experts in the region.

We hope you find this White Paper interesting, insightful and thought-provoking.

Sincerely,

Martin Huxley

SINGAPORE
One Raffles Place
#12-62 Tower 2
1 Raffles Place
Singapore 048616
Tel: +65 6309 1010
Reuters Dealing: INTS

UNITED KINGDOM
Moor House, 1st Floor
120 London Wall
London EC2Y 5ET
Tel: +44 203 580 6183
Reuters Dealing: INTM

DUBAI, UAE
Office 48D
All Mas Tower
Jumeriah Lakes Towers
PO Box 125942
Dubai, UAE
Tel: +9714 447 8510
Reuters Dealing: INTA

UNITED STATES
708 Third Avenue, 15th Floor
New York, NY 10017
United States
Tel: +1 407 741 5332

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Its global Precious Metal division is one of the largest and premier non-bank service providers and a leader in market innovation. We operate from offices in London, Singapore, Shanghai and Dubai, as well as employing full-time industry consultants in several other major jurisdictions.

INTL's subsidiaries serve the entire spectrum of clients in the precious metal industry offering access to all products and services including spot and forward trading, financing, clearing, vaulting & storage and is renowned for its strong credentials and capabilities in the physical gold, silver and platinum group metals.

Memberships

- London Bullion Market Association
- London Platinum and Palladium Market Association
- Clearing and Execution Members of the CME
- Singapore Bullion Market Association
- Trade Members of the Dubai Gold and Commodities Exchange
- Ring-dealing Member of the London Metal Exchange

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There are plenty of divergent opinions surrounding the outlook for gold in 2018. The experts canvassed by the LBMA report a wide variety of factors that will influence the gold price this year. Central to theories is the strong global economic growth that will ultimately lead to inflationary expectations and rising interest rates. Some experts explain that if global growth and interest rates both rise, and geopolitical problems also escalate, it could lead to corrections in the mainstream asset classes and lend support to gold as a haven trade. If interest rates rise sharply, without inflation in sight, the potential return on gold could look less appealing.

However, if investor fears over unstable global financial markets drive growth in portfolio allocations to gold, that might offset any intrinsic weakness in the gold price. Other analysts in the LBMA report indicate that gentle US dollar depreciation in 2018, as the Fed stays behind the anticipated inflationary curve, will also help gold prices.

Gold mine supply retreated this year in the wake of lower investment and rising costs. Mine production is forecast to decline by 1.3% within the next 2 years. This coupled with consistent gold demand could bode well for gold prices.

GOLD SET TO RETAIN ITS SHEEN

In 2017, 52% of the world gold consumption was from the jewellery sector, over 25% from investment bar and coin demand, 9% relating to both central bank demand and technology/industrial processes, with ETFs and similar products making up the smallest portion at almost 5%. India and China account for more than 50% of current global gold demand, with China remaining the world's largest bar and coin market, registering 8% growth in 2016.

While globally gold still only makes up less than one percent of investment portfolios, the annual volume of gold bought by investors has increased by at least 235% over the last three decades. In addition, following the 2008 financial crisis, central banks concluded eight consecutive years of net purchases, further supporting the growing investment demand.

THE CASE FOR GOLD IN ASIA'S HNW PORTFOLIOS

With regard to preservation of wealth, gold has an immensely long track record; providing a hedge against inflation, geopolitical risks, natural disasters and other crises.

Currently private banks and wealth advisers might typically advise their HNW clients to hold about 3-5% gold in their investment portfolios.

While an ETF provides gold exposure and is an excellent tool for short-term trading, physical gold is preferable for medium to long-term investment as it is highly liquid, lacks counterparty risk and affords investors more flexibility. Unlike property or stock funds, physical gold is a highly efficient wealth management tool for estate planning. In banks client's liquidity can also be maintained via leverage. The banks may lend up to 80% against the value of the gold holdings and will probably charge a marginally higher interest rate than for other loans backed.

ASIA'S EVOLVING GOLD MARKET INFRASTRUCTURE

Operating as 'ecosystems', Asia's precious metals market brings together LBMA refineries, bullion banks, wholesalers, traders and logistics firms into a cohesive gold marketplace. Significant markets serving Asian demand include China, Hong Kong, Japan and Singapore. Asia is a thriving hub for bullion production with more than 26 registered LBMA gold refineries across the region. Precious metal logistics firms further enhance the bullion trading ecosystem by helping to verify the integrity of the bullion that flows through their doors. With the dramatic growth in the infrastructure in Asia, buying and storing precious metals has become far simpler, cheaper and more efficient.

MOVING PRECIOUS METALS INTO THE MODERN WORLD

The rapid rise in the gold market's infrastructure in Asia in the past decade is now being followed by increasing technology, aimed at driving efficiency and transparency within the bullion sector, as well as making the purchasing and storage of gold more accessible.

Some innovative digital platforms provide free, direct and real-time access to precious metals inventory across the world, connecting Buyers to LBMA refineries, bullion banks, wholesalers and logistics firms, without the need to open multiple accounts.

WHY INVESTORS SHOULD CONSIDER BRINGING BULLION INTO THEIR PORTFOLIO

A safe haven asset, bullion will always maintain value due to its limited supply and intrinsic value. A hedge during periods of inflation, bullion reduces risks in an investment portfolio and is a great asset for wealth preservation.

Chapter 1

INTO THE CRYSTAL BALL – DOES GOLD HAVE A SHINY FUTURE?

The immediate outlook for gold in 2018 is predicated on critical factors such as the outlook for interest rates in the US and Europe and the valuations of equity and bond markets. As there is no clear consensus, there are plenty of divergent opinions surrounding the outlook for gold in 2018.

In a London Bullion Market Association (LBMA) report dated January 2018, the range of forecasts from 34 leading analysts the LBMA surveyed produced a range from as low as US$1,120 to a high of US$1,510 and the LBMA reports a similar divergent opinion for other precious metals.

GEO-POLITICAL FACTORS

The starkest geopolitical fear the world currently faces is the Korean peninsula and the threat of a nuclear conflagration there. Additionally, fears over the intentions of Russia as it rebuilds its military capability may also have a direct impact on the price of gold.

There is also concern over developments such as the Qatar diplomatic crisis and its knock-on effects to the stability within the Middle Eastern region. More recently the threat of a trade war between the US and China with both countries indulging in tit-for-tat protectionist moves.

In general, since 2008, there has been a slowdown in liberalisation, an uptick in protectionism and an increase in risk that have together dragged global trade down.

"Looking forward, we expect global investment in gold to continue to rise in 2018. The dollar index has remained weak, losing another 2.3% in the first three months in 2018. Demand for gold remained at high levels as financial markets have been gauging impacts brought by various influences."

Source: Thomson Reuters GFMS GOLD SURVEY 2018

LBMA HIGHLIGHTS RANGE OF FACTORS FOR 2018

The experts canvassed by the LBMA report a wide variety of factors that will influence the gold price. Central to theories is the strong global economic growth that will ultimately lead to inflationary expectations and rising interest rates.

With many of the world's most traded asset classes such as equities, bonds, and property already at record price levels, there is an additional risk of rising volatility and sharp corrections. If global growth and interest rates both rise, and geopolitical problems also escalate that could lead to corrections in the mainstream asset classes and lend support to gold as a haven trade.

Gold has traditionally been viewed as a hedge against inflation, as it is dollar-linked. If interest rates rise sharply to return them to historical norms from their historic lows, but without inflation in sight, the potential return on gold looks less appealing, and that might produce downside impetus as cash becomes more attractive. On the other hand, if investor fears over unstable global financial markets drive growth in portfolio allocations to gold, that might offset any intrinsic weakness in the gold price.

Some believe the gold price will benefit from an increasingly positive real rate environment in the US and a relatively weaker dollar. This will happen if the US Federal Reserve keeps the brakes gently applied to rate rises, while the dollar weakness might emerge more strongly if Quantitative Easing (QE) is cut back, especially in Europe. Closing off the QE tap is likely to accelerate wholesale equities and bond market corrections, which will also augur well for gold.

Peak-to-Trough Market Drops

	Start	End	S&P 500 Index	U.S. Treasuries	Gold
1987 crash	8/25/87	10/19/87	-33.2%	-7.2%	5.0%
Iraq invades Kuwait	7/17/90	10/12/90	-17.6%	-0.4%	7.6%
Asia crisis	10/7/97	10/28/97	-6.2%	0.0%	-4.6%
Russia/Long-term Capital Management crisis	7/20/98	10/8/98	-18.7%	5.3%	1.2%
Sept. 11	9/10/01	10/11/02	-22.3%	11.2%	16.6%
Global financial crisis	10/11/07	3/6/09	-54.5%	15.8%	25.6%
2010 Eurozone crisis and Flash Crash	4/20/10	7/1/10	-14.5%	4.5%	5.1%
U.S. sovereign debt downgrade	7/25/11	8/9/11	-12.3%	3.6%	7.8%
China worries	8/18/15	2/11/16	-11.8%	3.5%	11.5%

Source: Bloomberg

INFLATION? RATES? INFLATED EQUITY MARKETS?

The LBMA report indicates that gentle US dollar depreciation in 2018, as the Fed stays behind the anticipated inflationary curve, will also help gold prices. Combined with an investor retreat and diversification from the mainstream asset markets, this could propel gold 5% to 10% higher, according to individual analysts canvassed by the LBMA.

On the less positive side, there seems no end in sight to continuing robust performance of mainstream assets, as the early 2018 correction - quickly snuffed out - indicated. Allied with expectations from some quarters of a slower Asian jewellery market, this could put pressure on gold prices.

THE PRODUCTION PROBLEM

In the gold mining sector, the obstacles are piling up and that is hurting output. For gold miners, the deposits are deeper, the costs are higher, and the margins are lower. In jurisdictions around the world, gold miners are being asked to invest towards improving their operating conditions - including reducing the utilisation of critical resources such as energy and water, while also managing raised health, environment, and safety standards. In between all this, there is the profound understanding that they have to invest substantially in automation going forward.

All these factors point to the possibility of a continued decline in gold mining output for some time to come. According to the October 2017 Commodities Outlook from the World Bank, gold mine supply retreated this year in the wake of lower investment and rising costs. Gold mine output from China, the largest producer of gold, for example, fell 10% over the first nine months of 2017, according to the China Gold Association.

While global gold production officially rose to 3,268.7 tonnes in 2017 from 3,263 tonnes a year earlier, according to the WGC, this was the smallest increase since 2008's financial crisis, again pointing to the trend of decreasing output.

Looking ahead, according to the Metal Focus 2018 report, mine production is forecast to decline by 1.3% within the next 2 years. This decline coupled with consistent gold demand could bode well for gold prices. Gold mine production, however can't be viewed in isolation with recycled gold also playing an important factor in filling the production gap. Recycling production is highly influenced by the gold price, and according to Metal Focus this is forecast to increase by 2% primarily on expectations of a firmer gold price in the later part of 2018.

LBMA GOLD PRICE

The LBMA Gold Price is set twice daily, at 10:30 and 15:00 London BST, in US Dollars. ICE Benchmark Administration (IBA) operates the LBMA Gold Price, offering the platform, methodology and the overall administration and governance. IBA operates electronic auctions for spot gold. The final auction prices are published as the LBMA Gold Price AM and the LBMA Gold Price PM benchmarks in US Dollars. Prices are also converted into benchmark in a further sixteen currencies as indicative prices for settlement only.

The Direct participants of LBMA Gold Auctions are Bank of China, Bank of Communications, Goldman Sachs, INTL FCStone Ltd, HSBC Bank USA NA, Industrial and Commercial Bank of China (ICBC), Jane Street Global Trading LLC, JP Morgan Chase Bank N.A. London Branch, Koch Supply and Trading LP, Morgan Stanley, The Bank of Nova Scotia - ScotiaMocatta and The Toronto Dominion Bank.

Source: London Bullion Market Association, ICE Benchmark Administration

Chapter 2

GOLD SET TO RETAIN ITS SHEEN

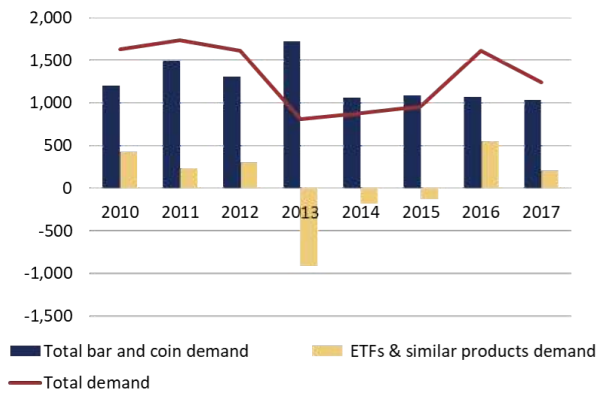
JEWELLERY DOMINATES DEMAND FOR GOLD

According to the World Gold Council (WGC), approximately 52% of the world's annual gold consumption in 2017 was for jewellery. Bar and coin demand is the next largest category of consumption at just over 25%, followed by central bank demand and technology/industrial processes (around 9% each), with ETFs and similar products making up the smallest portion at almost 5%.

The global financial crisis of 2008-09 added momentum to Asia's interest in gold as many HNW investors became increasingly wary of financial markets, fearful of a repeat of those fragile and volatile times. Wealth experts, therefore, see more and more people moving assets out of the financial system.

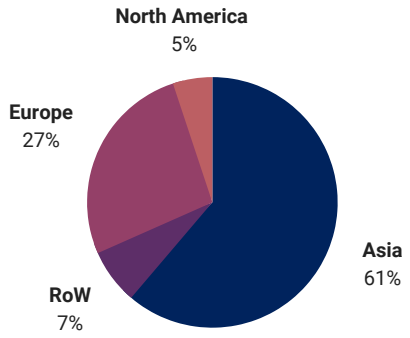
HNW individuals and families from the Americas and Western Europe are also increasingly interested in buying and holding gold in Asia, focusing particularly on Hong Kong and Singapore given their relative political and economic stability, as well as a government drive to make it a regional precious metals hub.

Tab. 2.2 Demand for Physical Investment (Tonnes)



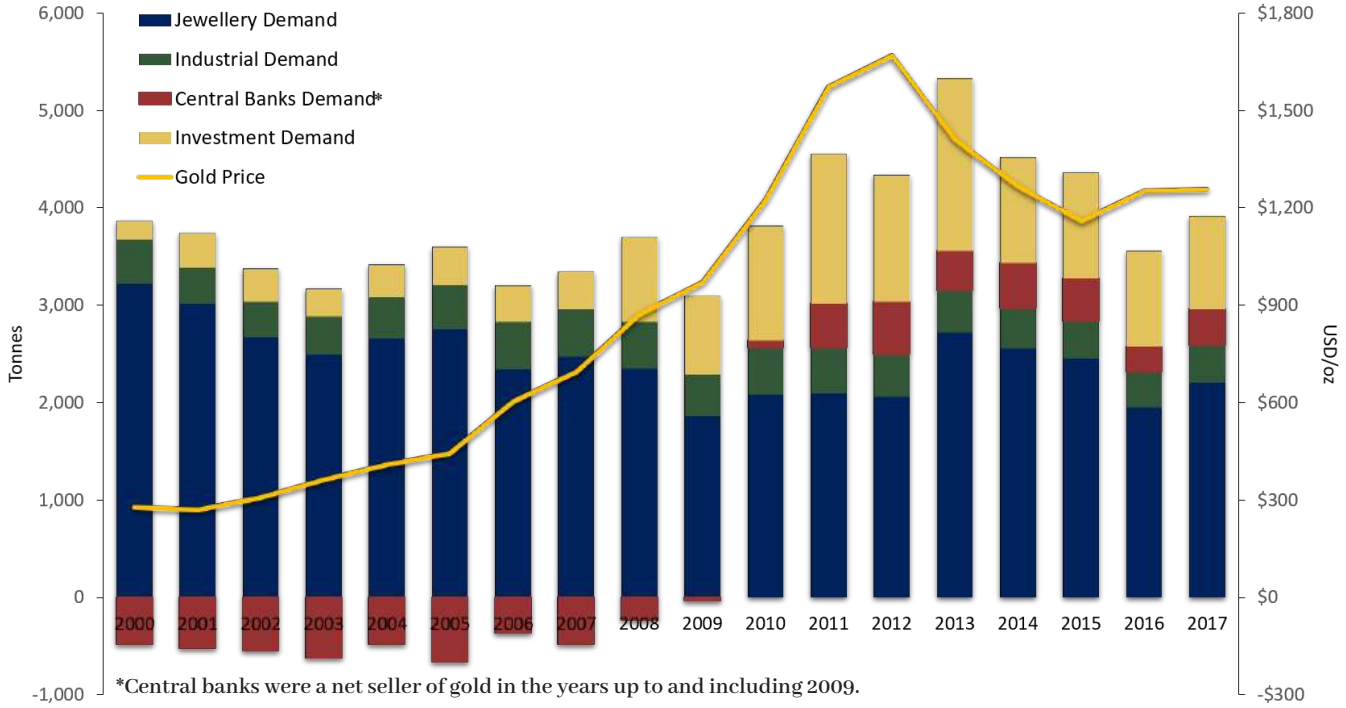
Source: World Gold Council

Tab. 2.3 Demand for Bars and Coins Regional Split (2017)



Source: GFMS, Thomson Reuters

Tab. 2.1 Gold Demand



*Central banks were a net seller of gold in the years up to and including 2009.

Source: GFMS, Thomson Reuters

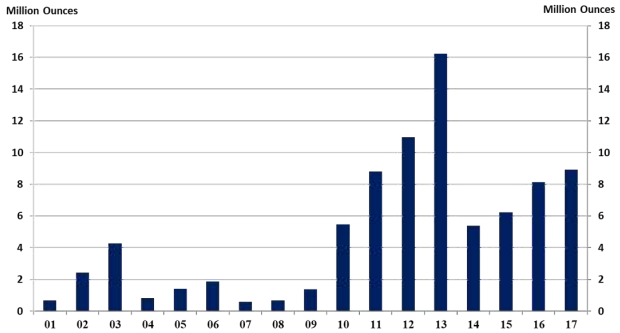
CHINA AND INDIA – THE 'WHALES' OF WORLD GOLD DEMAND

Data from the WGC shows robust demand for gold. Although total global demand dropped about 7% in 2017 over 2016, the growth trend in the past decade or so has been solid and consistent.

WGC data highlights that India and China are enormously important to the world gold market - between them they account for more than 50% of current global gold demand. China remained the world's largest bar and coin market, registering 8% growth in 2016. Indian demand also rose, albeit a gentler 2%.

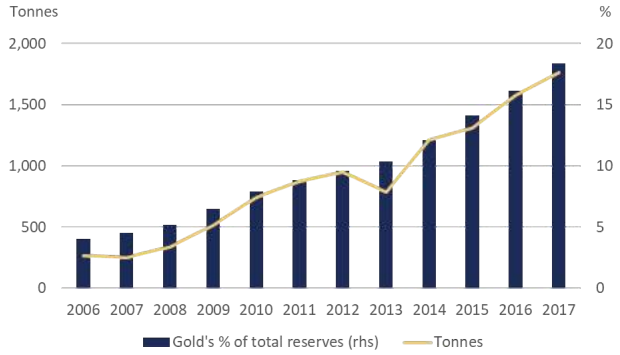
As per GFMS Thomson Reuters, demand for gold bars in China however retreated by 7% in 2017. A lack of a significant appreciation in the gold price in domestic terms, along with the speculation on cryptocurrencies gaining traction last year, meant that gold was less in favour. GFMS expect China's 2018 investment demand for gold to largely depend on the strength of the yuan.

Tab. 2.4 Total Chinese Gold Investment Demand



Source: CPM Group

Tab. 2.5 Russia's official gold holdings grew to almost 18% of total reserves in 2017



Source: IMF IFS; ICE Benchmark Administration; World Gold Council

INVESTMENT AND CENTRAL BANK DEMAND STILL GROWING

The WGC also highlights the unique properties of gold as an asset class, stating that modest allocations to gold can be proven to protect and enhance the performance of an investment portfolio. While globally gold still only makes up less than one percent of investment portfolios, the annual volume of gold bought by investors has increased by at least 235% over the last three decades, according to data from the WGC.

Additionally, central bank demand has turned a corner since the global financial crisis and prompted a reappraisal by the WGC of gold's role and relevance. WGC data shows that central banks sold 7,853 tonnes of gold between 1987 and 2009, while between 2010 and 2016 they bought 3,297 tonnes.

Tab. 2.6 Central banks demand up 20% y-o-y

Tonnes	Q2'16	Q2'17	YoY
Central banks & others	78.4	94.5	▲ 20%

Source: World Gold Council

Finally, technology applications have increased industrial demand for gold. Gold's physical properties - highly conductive, doesn't corrode, and is soft and pliable - make it an ideal material for electronic applications. Historically, gold has been used as an electroplated coating on connectors and contacts, and bonding wire in semiconductor packages.

The demand for memory chips served as a primary driver for increased industrial gold consumption. With the growth of the smartphone market and new avenues such as electric cars, the demand for gold by the electronics sector is expected to grow unabated.

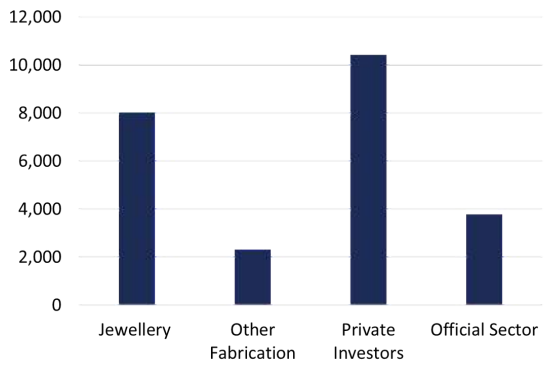
As HNW and ultra HNW numbers rise across the Asia Pacific region, the growing trend towards diversification of investment portfolios has, and continues, to increase. Wealth management professionals are seeing increasing proportions of their portfolios going into physical bullion, at the expense of other traditional asset classes.

GOLD HAS SOLID UNDERPINNINGS FOR 2018

For the year ahead, there is a confluence of factors that should support gold. The WGC notes that these factors include synchronised global economic growth, the end of QE globally, rising interest rates, inflated asset prices, and the more esoteric notion of market transparency and access. WGC's researchers conclude that these trends will support demand in 2018 and maintain gold's relevance as a strategic asset.

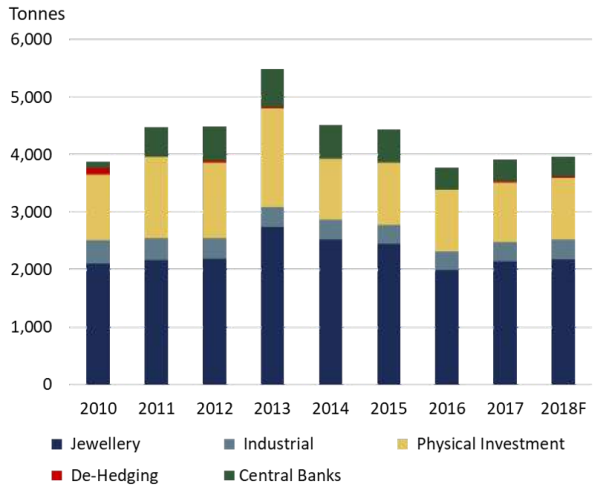
The outlook for gold in 2018 is, therefore, a continuation of the reflation trade that the world saw in 2017. G7 interest rates and volatility are more likely to increase, especially during the second half of 2018, according to many experts interviewed by Hubbis.

Tab. 2.7 Changes in Above-Ground Stocks by Sector, 2010-17



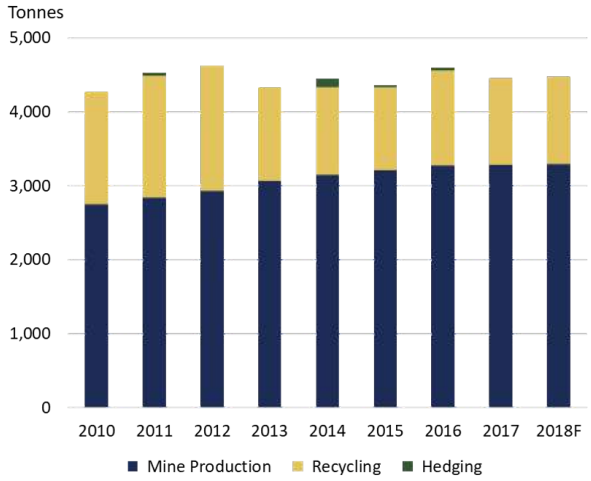
Source: Metal Focus

Tab. 2.8 Global Demand Forecast



Source: Metal Focus

Tab. 2.9 Global Supply Forecast



Source: Metal Focus

What's Driving Demand for Investment Gold in Asia?

- Transition of Asian economies and maturing HNW individuals market
- Rapid growth in the emerging HNW individual population
- Gold flow from West to East
- Gold market infrastructure development – Singapore and Hong Kong have world class physical infrastructure that supports the uptick in gold demand
- Market fundamentals – risk of overheated mainstream market and interest to remove assets from the financial system
- Changing investor motivation – investors are buying gold to profit from rising prices as well as to preserve wealth during times of financial, economic, or political crises
- Central banks increase physical gold reserves – central banks added to their gold reserves for the 8th consecutive year (WGC 2017)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Chapter 3

THE CASE FOR GOLD IN ASIA'S HNW PORTFOLIOS

Gold has an immensely long track record with regards to preservation of wealth. It provides a hedge against inflation, geopolitical risks, natural disasters and other crises. Gold is a portfolio diversifier. It is also easy to leverage, implying that liquidity can be maintained for the HNW individuals.

Currently, private banks and wealth advisers might typically advise that their HNW clients hold about 3-5% of gold in their portfolio.

Some of the more bullish advisers attending the Hubbis gold markets discussion in February 2018 and replying to the gold market survey, propose that their HNW clients put between 5% and 10% of any portfolio in gold because it has a diversifying effect on the other 90% of assets. In the long-term, it has also produced solid returns compared to other asset classes.

Using 1971 as a starting point, when the US exited the gold standard and measuring to the gold price of approximately US$35 to the price of US$1,325 per ounce as at the end of Q1 2018, a price appreciation of roughly 3,700% was returned. This compares favourably to the Dow Jones Industrial Index, which in the same period, appreciated by approximately 2,800%.

In late January 2018, Hubbis, together with INTL FCStone, conducted research - including a high-level roundtable discussion, interviews, and a survey on physical gold. The Hubbis Gold Survey 2018 went out to 174 private banks, family offices, wealth management advisers and other market experts in Asia who provided their views on the opportunities to buy and hold gold in HNW portfolios.

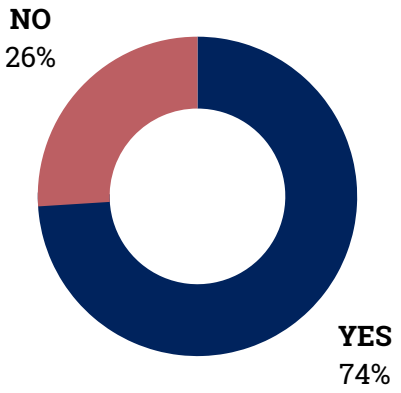
Commentary on whether they prefer paper gold or physical gold, and perceptions into their reasoning are included within this white paper.

"Depending on the level of uncertainty, if one is expecting the probability of a shock to be 10%, a client should own 10% physical gold. I would recommend holding at least 5% physical gold, but I currently advise between 10% and 15%."

Source: Hubbis Gold Survey

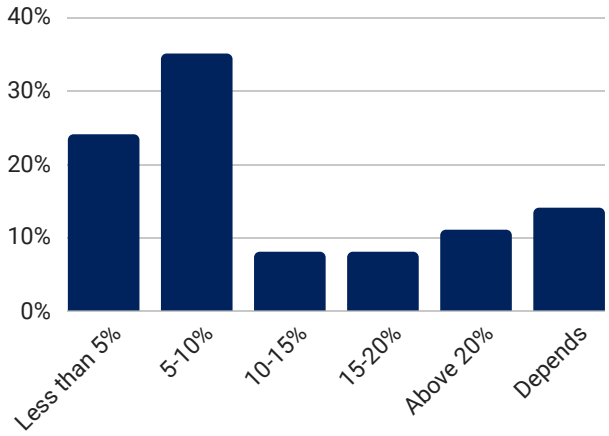
Tab. 3.1 Hubbis Gold Survey Result

DO YOUR CLIENTS BUY GOLD?



Tab. 3.2 Hubbis Gold Survey Result

WHAT PERCENTAGE OF ANY CLIENTS ASSETS SHOULD BE PHYSICAL GOLD?



GAINING EXPOSURE TO GOLD

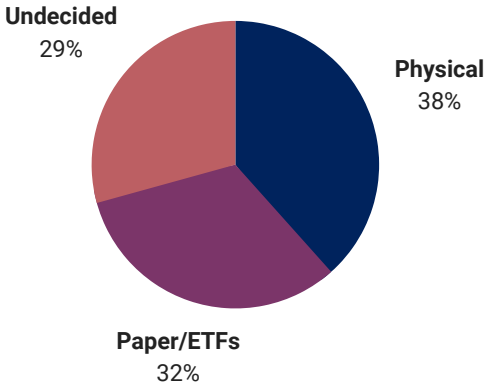
There are numerous ways to gain exposure to the gold market without owning or taking physical delivery. This includes via the futures markets, unallocated over the counter (OTC) swaps, exchange-traded funds (ETFs), or through the shares of gold miners, Nevertheless, physical gold has continued to attract high demand.

For historical and cultural reasons, Asian people, as a broad generalization, like to physically store, show or wear their wealth. Underpinning this is the widespread sentiment in Asia that gold provides a hedge against uncertainty in politics, currency, finance, and can also provide security against natural and other disasters.

There is already a vast and growing retail demand for gold in Asia, where a large proportion is for investment purposes. As wealth increases, experts believe so will investment demand for gold; especially in massively populous countries such as China and India where there is a traditional inclination to own physical assets. Both countries have been critical drivers of the bar and coin physical gold market in recent years.

Tab. 3.3 Hubbis Gold Survey Result

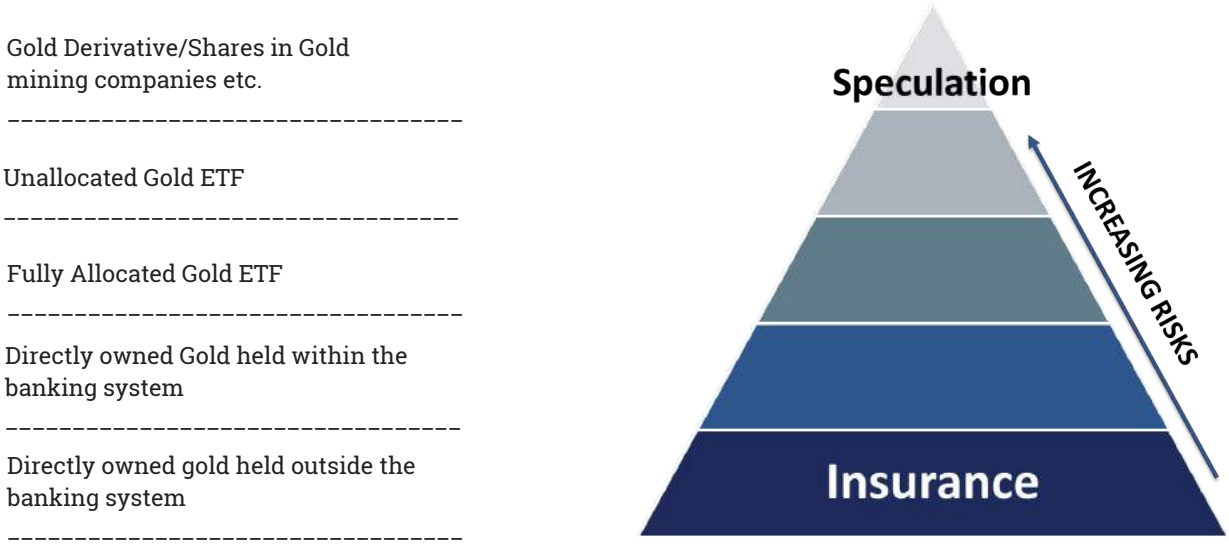
SHOULD YOUR HNW CLIENTS BUY PAPER/ETFS OR PHYSICAL GOLD?



"Paper gold is suitable for short- and medium-term hedging and speculation. Physical gold is more for long-term investment purposes."

Source: Hubbis Gold Survey

Fig. 3.1 Gold Investment Pyramid



THE CASE FOR PHYSICAL GOLD VS PAPER VS ETFS

Once a decision has been made to commence or increase exposure to gold, the investor must next decide the format for that investment, whether to purchase 'paper' gold or the physical asset itself. The typical paper avenues are margin trading accounts, ETFs, shares in gold mining operations, or the gold futures and options markets.

Experts agree that physical gold not only affords the investor more flexibility, but it is highly liquid and lacks counterparty risk. It is high-quality collateral especially during times of extreme uncertainty and volatility. While an ETF is an excellent tool for short-term trading, as a wealth preservation tool some of the experts canvassed in the research for this report agree that physical gold is far preferable for the medium to long-term.

Also, ETFs are promises on paper and are not always backed by physical gold. And even those with gold supporting them might not have sufficient gold to match their market values, implying that there could be a shortfall if everyone ran for the exit.

Moreover, while many ETFs do have gold backing them, accessing that physical gold, if required, is not easy. This is limited to substantial investments (approximately USD12.5 million at the time of publishing for SPDR ETF) and even then, access to the physical gold remains at the discretion of the Trustee. If the physical gold is accessed, the investor may not know the details of the underlying asset, for example, the purity of the gold, the format, the brand, the location etc. Another unknown of ETFs to be considered is the inherent counterparty risk in the chain of custody.

When you buy an ETF share, you transact with an authorised seller however that share is a promise of ownership from the fund's trustee who also further distributes the responsibility of storage to a Custodian. Paper gold is therefore viewed as more speculative, albeit accommodating for people who are looking to trade in and out of gold rapidly.

Whereas on the physical side, it is considered more of a long-term hold, with HNW individuals holding it as part of a long-term balanced portfolio.

In building the business argument for why people should pay more attention to physical gold, there is a substantial case for gold as wealth protection and wealth preservation tool, as well as for wealth accumulation.

PAPER GOLD	PHYSICAL GOLD
No physical underlying gold	Client holds title to physical gold
Counterparty credit risk	Decentralized asset with no credit risk
Regulated market	Can be held outside of the financial system
Cannot be easily used as collateral	Can be readily used as collateral or leverage
Low cost holding – margin requirements	Vaulting and insurance costs
Chain of custody – broker and exchange	Bi-lateral/Tripartite relationship with Vault Provider/Operator

ESTATE PLANNING, LEVERAGE, AND DIVERSIFICATION

Physical gold certainly has some advantages for estate planning purposes, for example, a HNW client might open a joint ownership account with an heir, which means that they do not need to validate the wealth with any jurisdiction where the gold is stored. This can enable a smoother transfer of assets.

In a practical sense, gold bars, unlike property or stock funds, are highly efficient wealth management tools for estate planning. Gold bars are available in many sizes and as such are easily divisible, transportable, and highly durable.

Many private banks that help clients buy and store physical gold recognise that the client's liquidity can also be maintained via leverage. Many banks will also offer to lend against the bullion, whereas only a few of the private, non-bank, firms will provide such a service.

The banks will lend, for example, up to 80% against the value of the gold holdings and will probably charge a marginally higher interest rate than for other loans backed, for example, by property assets.

A few private precious metals firms are also lending against gold that their clients have bought through them and that they then hold in one of the major logistics companies' storage facilities.

FROM MINE TO VAULT...OR NECKLACE

A significant portion of the gold refining industry is still located in western nations, but the physical demand is increasingly driven by the Far East market, underlining the definite shift of the bullion market from West to East.

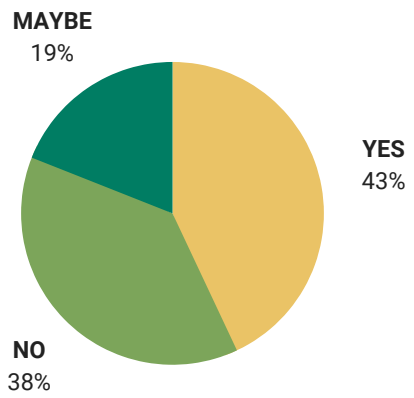
When a gold bar is produced by a LBMA accredited refinery, from whatever raw material source - whether it be dore from a mine [70%-90% gold ore] or scrap gold - the bar that emerges will typically be what the industry terms 'four 9s', which means 99.99% purity also known as 24 carats.

99.99% purity is the most commonly accepted and traded purity in the far eastern markets. Whereas in India, 99.5% purity is the accepted norm. Physical gold bars are highly liquid and can be traded in a large bar - the 400-ounce (or 12.5 kilos) bar - that is most commonly delivered to the vaults, or in a kilogram bar (kilo bar).

The market also trades much smaller bars of 1 gram upwards, as well as coins. The kilo bar is the standard typically traded in Asia and India, while the 100-gram bar is also favoured in the Indian market.

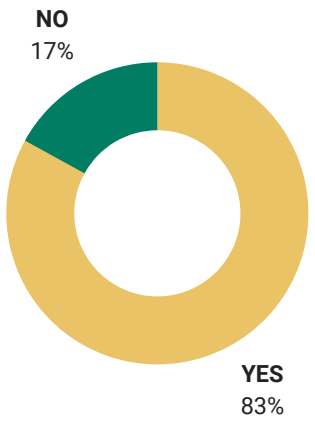
Tab. 3.4 Hubbis Gold Survey Result

DO YOU THINK THAT THEY SHOULD BE INCREASING THEIR WEIGHTING IN GOLD AT THIS MOMENT GIVEN WHERE INVESTMENT MARKETS ARE?



Tab. 3.5 Hubbis Gold Survey Result

DO YOU SEE GOLD AS A TRANSPARENT LIQUID INVESTMENT?



"A SIGNIFICANT PORTION OF THE GOLD REFINING INDUSTRY IS STILL LOCATED IN WESTERN NATIONS, BUT THE PHYSICAL DEMAND IS INCREASINGLY DRIVEN BY THE FAR EAST MARKET, UNDERLINING THE DEFINITE SHIFT OF THE BULLION MARKET FROM WEST TO EAST."

Chapter 4

ASIA'S EVOLVING GOLD MARKET INFRASTRUCTURE

THE "GOLDEN" ECOSYTEM

Asia's precious metals market infrastructure has both expanded and improved, quite dramatically in recent times. Significant markets serving Asian demand include China, Hong Kong, Japan and Singapore. The infrastructure that supports a thriving gold market includes gold refining facilities, storage and vaulting capacity, exchanges that offer a range of spot trading capability or listed contracts and a sophisticated investing public interested in taking advantage of the benefits offered by investing in physical gold.

According to experts canvassed by Hubbis, more than 50% of Asian clients prefer to store their gold in Singapore, about 35% prefer Hong Kong, with the remainder storing bullion in Zurich and a small proportion preferring North America.

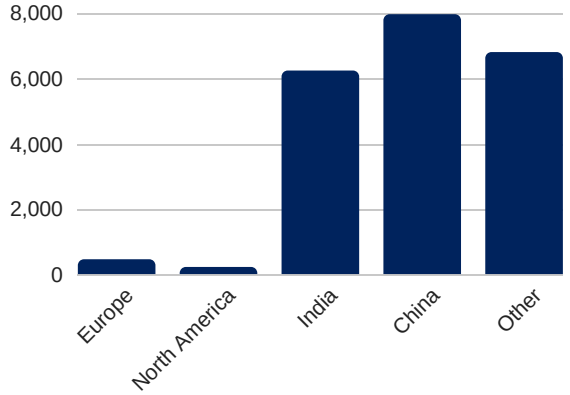
Operating as 'ecosystems', these markets bring together LBMA refineries, bullion banks, wholesalers, traders and logistics firms into a cohesive gold marketplace.

The Asia region is a thriving hub for bullion production with more than 26 registered LBMA gold refineries spread across China, Hong Kong, Japan, Singapore, Indonesia, Philippines, South Korea and Taiwan. While Asia as a whole is a significant participant in the global gold marketplace, there are specific local markets that stand apart as leaders in the region.

CHINA

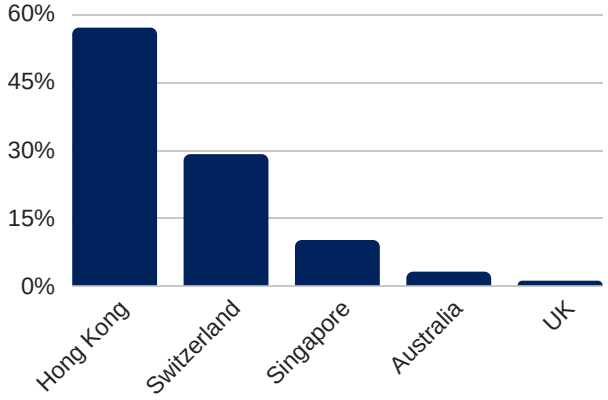
China is home to the Shanghai Gold Exchange (SGE), the largest physical spot exchange in the world, which has grown in significance in line with China's increasing importance in the gold market. In 2016, the SGE cemented China's role as a global price setter by introducing the Shanghai Gold Benchmark Price. The Chinese gold markets are further supported by very active futures markets traded on the Shanghai Futures Exchange (SHFE). These two exchanges complement each other's offerings even though they are not directly linked.

Tab. 4.1 Changes in Above-Ground Stocks by Region 2010-2017



Source: GFMS, Thomson Reuters

Tab. 4.2 Chinese Gold Imports Breakdown 2017 (The Major Sources)



Source: GFMS, Thomson Reuters

HONG KONG

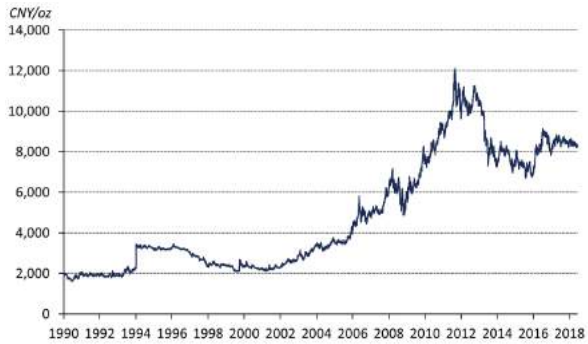
The Hong Kong gold market was built around the Chinese Gold and Silver Exchange (CGSE) established in 1910. It is one of the world's most active physical gold trading markets and has long worked as a gateway to the Chinese market. While other Asian markets are gaining in importance, the Hong Kong based exchange still exerts a great deal of influence in the region.

In a February 2018 article, the South China Morning Post reported that the exchange is working to establish a gold commodity corridor between Singapore, Myanmar and Dubai to promote yuan-denominated products. As part of this effort, there is a proposed bonded warehouse in Qianhai free-trade zone, near Shenzhen, capable of storing 1,500 tonnes of gold which is expected to provide custodial and physical settlement services.

JAPAN

Due to its proximity to China and Hong Kong, it is often easy to overlook Japan's role in the Asian gold infrastructure, but it is a superb example of a sophisticated and mature gold market. The Tokyo Commodity Exchange offers three gold futures contracts and has certified eight Tokyo-based warehouses for precious metals including gold. There are 11 LBMA approved refineries in Japan. Investment demand for gold in Japan in 2015 was estimated by the WGC to be 32.8 tonnes, split between 16.2 tonnes of investment gold and 16.6 of gold jewellery. Japanese investors are more than willing to hold physical gold as a hedge against currency volatility and more importantly as a store of value.

Tab. 4.3 Gold Spot Price in Chinese Renminbi



Source: Reuters DataStream, LBMA, World Gold Council

Tab. 4.4 Gold Spot Price in Japanese Yen

Source: Reuters DataStream, LBMA, World Gold Council

SINGAPORE EMERGES AS AN ASIAN GOLD HUB

The Singapore government spotted many of the critical trends early and has been highly focused on offering HNW clients, private banks and institutions the opportunity to manage their financial assets as well as physical holdings of tangible assets, especially precious metals.

Singapore has therefore positioned itself at the cutting edge of the market as a critical Asian hub for precious metals. The location is ideal, based on the geographic and time zone links to the precious metals operations in the Americas and EMEA. Singapore has an excellent commodities infrastructure and the government has been working to encourage companies to enter Singapore in the precious metals sector.

Singapore is viewed as one of the most international and sophisticated place for companies in this marketplace to conduct business in the region, with an excellent regulatory, legal and financial infrastructure. With the full range of mainstream financial institutions and wealth management firms operating out of the island Republic, it is a natural venue for the growth of the physical gold market in the region.

"Supported by Enterprise Singapore, SBMA is focused on the development of Singapore as an Asian precious metals hub and also as one of the most global centres of connectivity for precious metals. This recognizes its geopolitical stability, transparent financial system and wealth management infrastructure, in support of investment demand in gold. Since relaxing GST requirements in 2012, the volume of gold traded out of Singapore has grown at a 5-year compound annual growth rate of 40%, reaching over 1,700 tonnes in 2016."

Albert Cheng
CEO of Singapore Bullion Market Association

SINGAPORE PRECIOUS METALS ECOSYSTEM

- PRIVATE BANKS
- BULLION BANKS
- ACCREDITED REFINERIES
- TRADERS/ WHOLESALERS
- SECURE LOGISTICS & VAULTING
- RETAIL & DISTRIBUTION

Aimed at establishing the country as a hub for the gold trade, The Government of Singapore decided in October 2012 to waive the Goods and Services Tax (GST) on Investment Precious Metals.
To qualify for the waiver, the metals must be accredited by a LBMA approved refinery. Seizing on the opportunity offered by the favourable tax environment the infrastructure necessary to support the gold trade has developed whereby there is now a LBMA refinery in Singapore, and the big-name logistics companies provide vault storage and transportation logistics.

In 2011, the construction of the Singapore Freeport was completed, leading to significant bullion houses and banks opening dedicated vaults within the facility. Combined with the Singapore "Freeport" storage, the vast array of banks and large trading companies, the market trading infrastructure and the retail market, Singapore has a compelling range of attractions for any serious investors in the gold market.

The developing infrastructure, coupled with Singapore's decision to waive the GST, allowed Singapore to further cement its position as an international wealth management centre at a time when global demand for investments in precious physical metals was growing apace.

PRECIOUS METALS LOGISTICS FIRMS BUILD THEIR PRESENCE

Many investors looking to remove assets from the financial system are spoilt for choice with the leading global precious metals logistics firms including, but not limited to the following: Brinks Global Services, G4S International, Malca-Amit, Loomis, Ferrari and a recent market entrant named Ava Global all offering transportation, vaulting and insurance services in the region.

These logistics firms are vital to the industry, ensuring security and transparency that is paramount to the market.

The logistics firms collect, weigh and put seals on the bullion and then move it, whilst of course also taking out insurance coverage while it is in transit and under their control. They also work in cooperation with large financial institutions offering allocated vaulting solutions for HNW individuals that prefer to hold bullion managed by large entities and leverage the vaulting economies.

Lastly, logistics firms further enhance the bullion trading ecosystem by helping to verify the integrity of the bullion that flows through their doors. For many investors, the source of the bullion is as important as the purity so logistics firms can help to confirm unbroken chain of custody from refinery or bank to vault.

NEW APPROACHES FROM ASIA'S NEW GENERATIONS

Historically many Asian clients have been inclined to keep gold at home. For many, the concept of storing it with a third party caused either privacy concerns or fears over security. This mindset is gradually changing, especially as the younger generations inherit much of Asia's old wealth and embark on new ventures, therefore providing excellent opportunities for the bullion sales companies, vaulting and logistics companies, that move the gold around.

For small holdings of coins and other more modest gold items, storage at home continues to be logical for most HNW families, but in a world where security is even more of a pressing concern storing bullion and more significant amounts of gold at home is increasingly risky.

Moreover, insurance is complicated unless the house is set up for high security. Additionally, if an owner wants to sell bullion, it would then need to be authenticated and certified, which is problematic if it is not stored in a secure vault.

Adding further momentum to the physical gold market, more and more European and even US clients are interested in storing gold in Asia, due to its growth and increasing financial stability, especially in centres such as Singapore. With the dramatic growth in the infrastructure in Asia, buying and storing precious metals has become far simpler, cheaper and more efficient.

While banks might charge an estimated 2% of the procurement and around 1% of the annual custody, there are alternative providers of this service. Both private and listed financial services firms now offer those services at an estimated 50% less, according to experts contacted by Hubbis.

Typical custodian costs depend on multiple factors, including location, size, the number of times access to the gold is required and so forth. The service providers can offer access to clients or nominated third parties to view or check the gold.

Rates are on a case-by-case basis, but market experts indicate rates of between 0.25% and 0.5% are typical for custodian services.

Chapter 5

MOVING PRECIOUS METALS INTO THE MODERN WORLD

Gold is a global business, so clients considering investment in physical gold should seek out firms that provide a full-service precious metals trading capability and universal access to the related financial markets through centres such as London, Singapore, Shanghai, Dubai and the USA.

The gold industry is a remarkably diverse and fascinating business, with precious metals firms dealing with clients from mining companies to jewellery makers to HNW individuals.

The ability to provide follow-the-sun, seamless, and continuous service to clients across the whole of the precious metal sector is increasingly essential. Such global precious metals businesses are set up to cater for the varied needs and orders of bullion wholesalers, traders, refiners and smelters, government agencies, banks and financial institutions, jewellery manufacturers and other industrial users of precious metals and of course, individual HNW investors.

A specialist global physical bullion company might, for example, buy gold in raw material form from mining companies, especially in major producing regions such as China, Australia, Russia, Africa or North and Latin America. It may then send the raw material to LBMA accredited refineries around the globe that convert it to gold bars that can then be marketed and delivered to institutions, or to HNW individuals or it might be turned into jewellery and other fashion accessories.

These global precious metal companies act as reliable and competitive wholesale suppliers of gold, silver and platinum group metals in the form of London good-delivery bars, other bars, grains, sheets, dore, wafers and wire.

3 MAIN FACTORS TO CONSIDER WHEN PURCHASING PHYSICAL GOLD:

RELIABLE SOURCE

- Reputable Bullion Traders
- LBMA Refinery
- Bullion Banks

SECURE LOCATION

- Safe jurisdiction
- Politically stable
- Accessible
- Stable environment (e.g. not exposed to earthquakes)

LOGISTICS PROVIDER & INSURANCE

- Expert logistics and security firm should be selected
- Track record and expertise in Bullion
- Global network preferable

"If there are other trusted alternatives to the banks to store their physical gold and they are able to monitor the holding regularly and obtain advice on when to accumulate, or sell, our clients will be interested."

Source: Hubbis Gold Survey

ONLINE PLATFORMS FOR THE NEW WORLD OF GOLD

For many decades, the buying and selling of gold have been labour intensive, non-transparent and convoluted, with numerous steps and modes of communication and transportation.

This becomes especially unwieldy across the world's time zones, opening the door for private companies to provide a more seamless, technology-enabled array of services.

Some of the commercial firms that provide precious metals investment services to private banks, wealth managers and HNW individuals have developed online platforms that allow clients to buy and sell precious metals in a more technologically-appropriate manner. Some have, or plan to create, mobile applications to support those platforms. In general though, the wholesale bullion markets have been slow to embrace technology.

FROM OPAQUE TO TRANSPARENT – TECHNOLOGY AS A CATALYST

Historically, the opaque character of the physical gold market was preferred by many within the industry, who liked to be able to cloak the margins involved. The new web-based platforms are ideal for transparency in buying physical gold, allowing clients to select a location, to view exactly what is on offer in all the locations, choose the brand, and select the product.

Platforms that have been established include INTL FCStone's web-based trading platform, PMXecute+ (PMX+®), which connects precious metals consumers and suppliers of physical gold with seamless, real-time access to the global bullion market.

Some of the commercial firms see the introduction of new technology as pioneering modern practices in the industry. Making the purchasing and logistics for precious metals more efficient is creating a better experience for the users. It also encourages more clients into the market as understanding grows and as the simplicity of transactions and the variety of secure storage options increase.

The actual prices quoted for purchases on such platforms will be a premium over the prevailing gold price, unlike existing platforms and exchanges where you are obliged to fix the spot price at the time of trade.

DASHBOARD | CONFIRMED OFFERS | UNCONFIRMED OFFERS | REQUEST FOR QUOTE | DIRECT OFFERS | TRADES

Confirmed Offers

06-03-2018 11:41:20 (GMT)
06-03-2018 11:41:20 (GMT)

Edit | Replicate | Delete | Post | Upload | Add new | Trade

OPEN

Offer ID	Metal	Form	Inventory	Condition	Brand	Purity	Quantity Type	Quantity	Ounce Equivalent	Source Location	Premium ($/Ounce)	Availability	Expiry	Status
CFR-20207	XAU	BARS	Kilo Bar 999.9	FRESH	METALOR HONG KONG	0.9999	KG	50	1,607.4	Vault (G4Si) - Hong Kong	3	09-03-2018	3D 8H 19M 09-03-2018 20:00	POSTED
CFR-20205	XAU	BARS	Kilo Bar 999.9	FRESH	PERTH MINT	0.9999	KG	50	1,607.4	Vault (Brinks) - Singapore	3	09-03-2018	3D 8H 19M 09-03-2018 20:00	POSTED
CFR-20204	XAU	BARS	100 Grams 999.9	FRESH	ARGOR-HERAEUS	0.9999	PC	100	321.5	Vault (Brinks) - Singapore	3.2	09-03-2018	3D 8H 19M 09-03-2018 20:00	POSTED
CFR-20206	XAU	BARS	100 Grams 999.9	FRESH	METALOR SINGAPORE	0.9999	PC	25	80.375	Vault (Malca) - Singapore	3.1	09-03-2018	3D 8H 19M 09-03-2018 20:00	POSTED
CFR-20202	XAU	BARS	Kilo Bar 999.9	FRESH	ARGOR-HERAEUS	0.9999	KG	25	803.7	Vault (Brinks) - Geneva	2.5	09-03-2018	3D 8H 19M 09-03-2018 20:00	POSTED
CFR-20203	XAU	BARS	Kilo Bar 999.9	FRESH	VALCAMBI	0.9999	KG	20	642.96	Vault (G4Si) - Zurich	2.3	09-03-2018	3D 8H 19M 09-03-2018 20:00	POSTED
CFR-20201	XAU	BARS	100 Grams 999.9	FRESH	ARGOR-HERAEUS	0.9999	PC	80	257.2	Vault (Loomis) - Geneva	2.8	09-03-2018	3D 8H 19M 09-03-2018 20:00	POSTED

Source: INTL FCStone's Physical Commodity Trading Platform PMXecute+®

ONE-STOP SHOPPING

Via some of these platforms, clients can get access to the many elements of the gold market, for example, LBMA refineries, bullion banks, wholesalers and logistics firms, without the need to open accounts directly with them to enable this. Such a platform can provide customers with free, direct and real-time access to precious metals inventory across the world, as well as all products offered through its global network of supply partners. The platforms can automate and accelerate interaction with customers, improving market access and efficiency.

The platforms help clients with price protection, allowing the client to take gold on an un-priced basis. A jewellery manufacturer might buy gold today but sell only weeks or months later. Price protection allows those clients to either price immediately or stay unpriced until point of sale is locked in.

KEYING IN SPECIFIC REQUIREMENTS

Platforms such as INTL FCStone's PMX+® also have added functionality where customers (Buyers) can submit a "Request for Quote", if they do not see inventory that meets their specific requirements (such as a particular quantity, brand, date or location), notifying suppliers around the world of the request. For example, a client might key in a price request for 20kg of gold, for Hong Kong delivery tomorrow. The same platform might then determine who can deliver gold to that vault in that time scale and then take the best offer and deliver it to the client.

Suppliers can separately create firm or indicative offers on the platform for all customers (Buyers) to view and trade. A key advantage of such a platform is that clients have the option to buy or sell unpriced, in other words without immediately fixing the price of gold. Customers with larger requirements may have previously entered purchase contracts with multiple suppliers, being banks, refiners or bullion traders, and would be required to post cash or collateral of about 10% with each where the gold is taken on an unpriced basis.

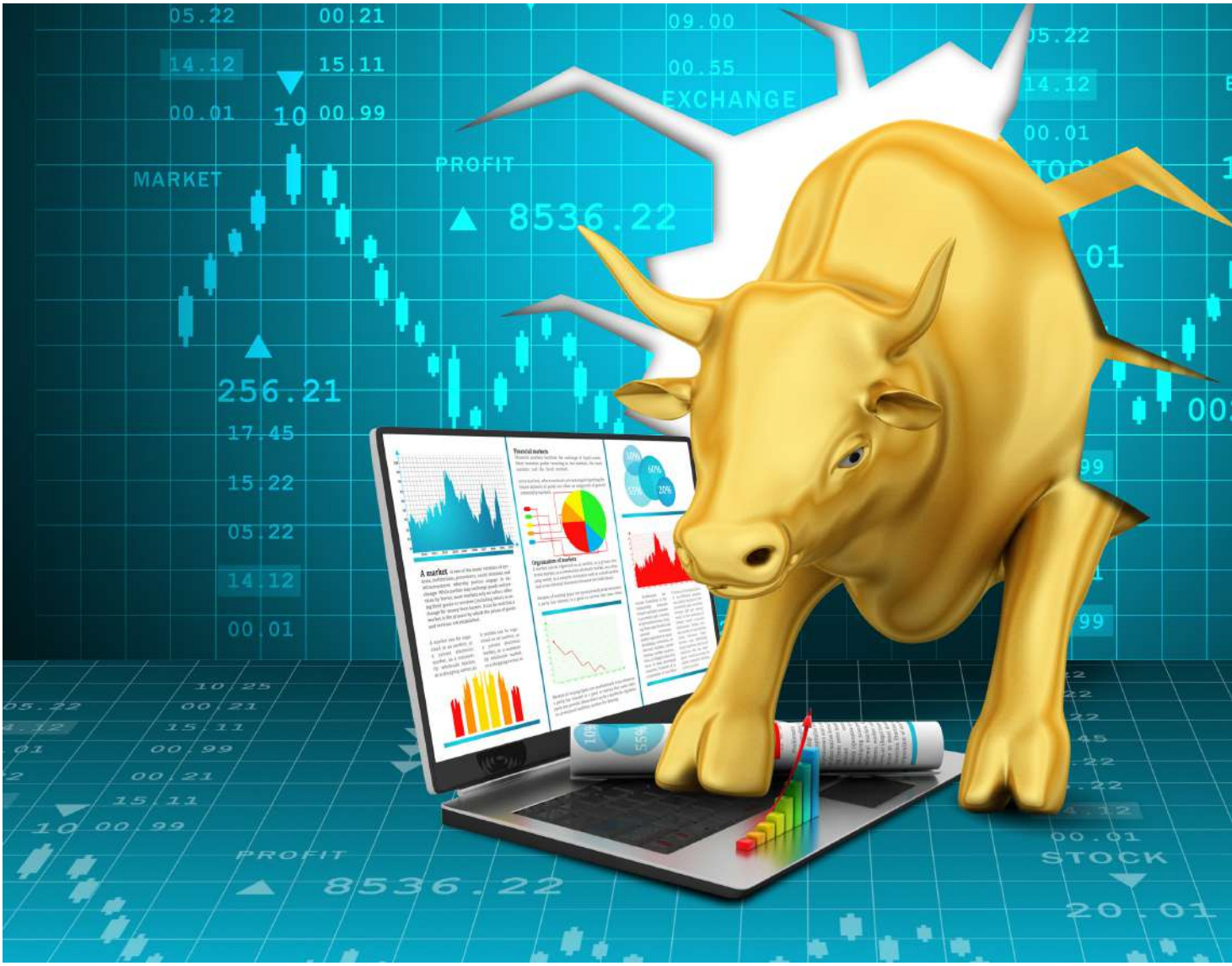
Instead, those customers can now contract with one central supplier (the platform provider), whilst maintaining access to the entire supplier base that sits behind it. Particularly attractive is that it not only removes any KYC challenges, but also requires only one set of margin collateral; thereby making it easier to manage and simultaneously enhancing liquidity and risk exposure.

In this way the platform provider can align its business and its clients with the latest technology, thereby helping create a venue to match buyers and sellers together in an efficient and open marketplace. If the entire process is automated in this way, it can dramatically simplify price discovery, trading, logistics and documentation.

Credibility is vital in dealing with such valuable assets and large sums. Companies at the forefront of such advances also highlight the importance of stringent compliance controls and responsible sourcing for gold.

The larger precious metals firms offer a complete range of financial and physical trading services in gold, silver and platinum group metals, e.g. platinum or palladium.

Clients can access markets through trading and advisory services and, if available, the new, ultra-convenient electronic trading platforms.



Chapter 6

WHY INVESTORS SHOULD CONSIDER BRINGING BULLION INTO THEIR PORTFOLIO

A a safe haven asset, bullion will always maintain value due to its limited supply and intrinsic value. A bullion hedge during periods of inflation, bullion reduces the risk in an investment portfolio and is a great asset for wealth preservation, sustainability and transfer across markets and cultures.

As it stands, the demand for investment gold like bullion keeps growing, driven by rapidly evolving Asian economies, persistent central bank buying and the growing HNW individuals segment.

As the HNW individuals segment grows in economies like India and China, the demand for gold is expected to rise substantially, due to a multitude of factors. This includes, but is not limited to, changing investor motivation - buying gold to profit from potentially rising prices whilst protecting portfolios from market risk and to ultimately preserve wealth during times of (now often seen) financial, economic, or political stress.

Supporting the transition to gold are the currently overheated mainstream capital markets and increasing investor interest to remove their assets from the financial system. With the development in Asian gold market infrastructure, this transition has never been so simple. Physical bullion, which is historically proven to be one of the safest and most stable stores of value available to investors, fits in perfectly with that changing dynamic.

THIS WHITEPAPER IS IN COLLABORATION WITH

Disclaimer

T +852 2824 8343 (HK)
T +65 6549 7918 (SG)
E enquiries@hubbis.com

One Raffles Place
#12-62 Tower 2
1 Raffles Place
Singapore 048616
Tel: +65 6309 1010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