

# Gold - An asset you must know



**The price of gold will double to at least \$2,000 an ounce in the next decade**

**- Jim Rogers**

**We live by the Golden Rule. Those who have the gold make the rules.**

**- Buzzie Bavasi**

**India recently purchased 200 tonnes of gold from the IMF**

**- Reserve Bank of India**

## Gold – why now?

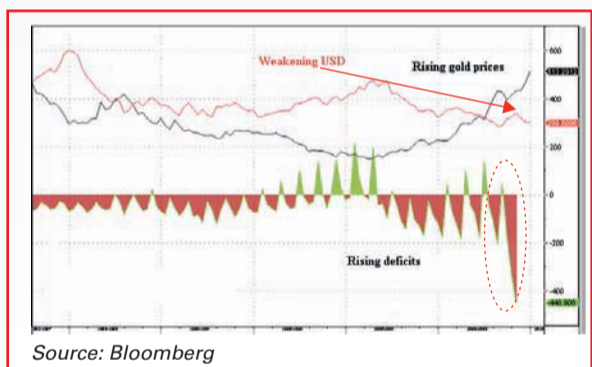
**Gold price has remained virtually unchanged for over 20-years**

- On an inflation-adjusted basis Gold trades at levels that last prevailed in 1986-87. To reach its previous highs, Gold has to cross levels of cUSD 2,228/ounce.



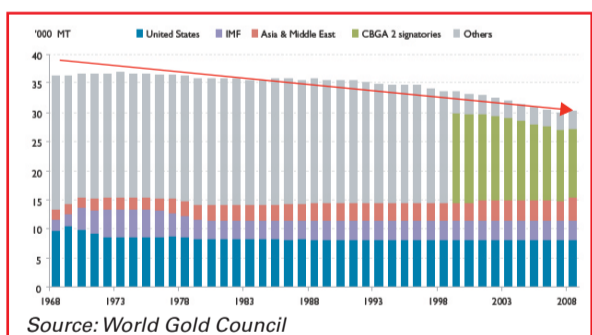
**Gold is emerging as an alternative for the USD**

- Owing to various structural issues (high deficits, high debt to GDP) in the US, the USD is gradually losing its safe haven status. In the absence of an alternative, Gold is being viewed as a safe haven asset.
- Weakening USD and rising US Government deficits favouring gold prices



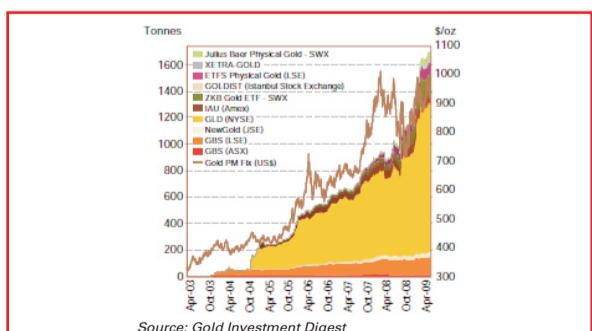
**Central banks' Gold holdings have fallen – higher allocations likely with the USD's fall**

- Gold has been the world's reserve asset but its proportion of the world's total reserves has been reducing during the last decade. As a proportion, gold holdings are at a four decade low.



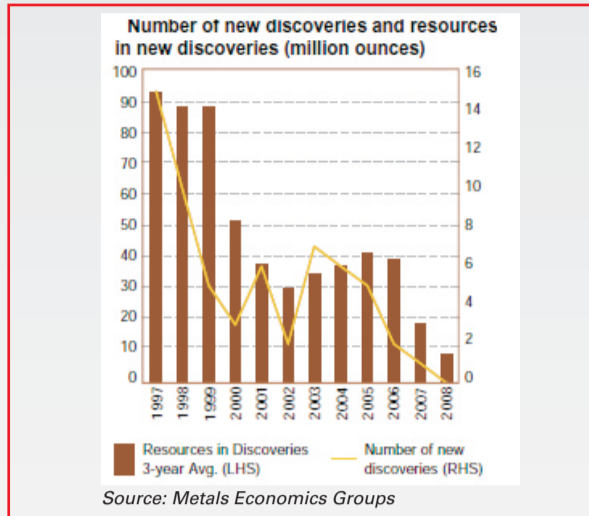
**Sharp rise in demand from financial investors**

- As of July '09 a record USD 51B (1,694 tonnes) was invested in Gold Exchange Traded Funds (ETFs), which is equivalent to nearly 70% of the global annual mine output.
- ETFs are the sixth largest holders of gold in the world.



## Low new discovery of gold mines

- Only one major gold mine discovery (more than 2 M tonnes) took place in 2007 and **none in 2008** as compared to **fifteen discoveries** a year a decade ago.
- According to HSBC Global Research, **gold mine production peaked in 2003** and has been declining since then due to weak mining investment in the 1980s and 1990s and on the lack of skilled manpower and mining equipment.
- Gold production is declining due to **maturing mines** and **shortage of new mines, falling reserves** and on new projects having a long gestation period.
- The financial crisis of CY08 has stalled many projects due to an increase in interest costs and on capital costs ballooning, thereby constraining supplies.

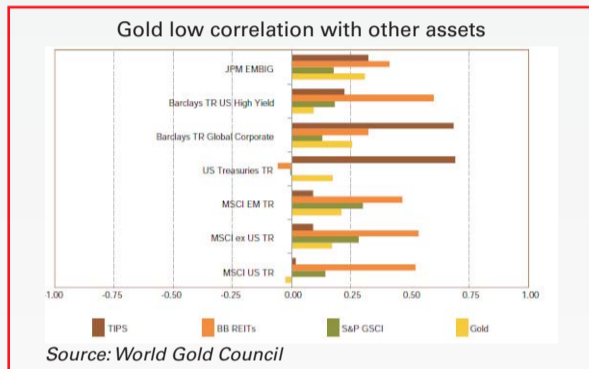


## Conclusion

Since the global crisis of '08, investors' confidence in paper currency has ebbed sharply owing to the huge increase in money supply globally that has eroded its intrinsic value. Recently central banks of various countries, including India, have either bought or indicated their intent to increase the proportion of gold in their reserve holdings.

Owing to the spurt in money supply, investors expect inflation to rise eventually as excess money chases limited assets. In this backdrop, gold has reinforced its role as the store of value.

While the recent spurt in gold price may limit a sharp rise over the near term, gold is likely to figure as a key allocation in investors' portfolios purely from a medium to long-term standpoint. Given its historically observed correlation with equity, investments into gold also provide for appropriate portfolio diversification.



## Overview of DSP BlackRock World Gold Fund

In view of the various factoring surrounding gold, we wish to inform you about DSP BlackRock Investment Managers– DSP BlackRock World Gold Fund, which strives to capitalize on the potential of this theme.

- DSP BlackRock World Gold Fund is an open ended fund of funds scheme which will predominantly invest into the BlackRock Global Funds –World Gold Fund
- DSP BlackRock World Gold Fund was launched in August '07 and as of October '09 it has been managing assets worth cINR 14.6B
- BlackRock Global Funds –World Gold Fund invests globally at least 70% of its total assets into equity securities whose predominant economic activity is gold mining. This fund may even invest into companies which focus on precious metal or mineral and base metal or mineral mining.
- BlackRock Global Funds –World Gold Fund has a fourteen year track record and was managing assets in excess of USD 5.6B as of October '09.

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