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Do More with the Core: Add Gold with the SPDR® Gold MiniSharesSM ETF

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By SPDR Research and the Gold Strategy Team

A strong, flexible portfolio depends on how you allocate assets in the core. That's because the core is the largest part of a portfolio and research has suggested that asset allocation decisions explain over 90% of the variance in portfolio returns.¹ Given today's low return expectations, building a low-cost, we believe a diversified core is more important than ever because high costs can erode a portfolio's total return over time.

How to Build a Comprehensive Low-Cost Core

We believe today's core should reflect an expansive investment universe, including US equities, international equities and fixed income as well as alternative assets that are historically uncorrelated to traditional asset classes. Investors have a well-documented tendency to exhibit a home bias (a heavier allocation to domestic stocks).² Given how globalized the economy has become, where countries outside the US represent 85% of nominal global GDP,³ investments with exposure outside of the US are essential to broaden reach, mitigating any home bias tendency.

Yet, while a portfolio concentrated in equities has historically generated strong returns over the long term, these returns merely compensate for the higher risks assumed. And not all investors can tolerate the significant drawdown risk inherent within equities. Diversifying your core by allocating to bonds and relatively-liquid alternative assets such as gold may help mitigate portfolio drawdowns and improve returns per unit of risk.⁴ As shown in Figures 1 and 2, relative to both a hypothetical pure equity portfolio and a hypothetical portfolio composed of 60% equity, 40% fixed income, a hypothetical portfolio composed of 59% equity, 35% fixed income and 6% gold would have reduced drawdowns and would have more quickly recovered its maximum losses after stock market crashes during the period from July 1, 1998 through June 30, 2018. A 6% allocation to gold for a moderate portfolio is based on a 2% sliding scale starting with a 2% allocation for a conservative portfolio to 10% allocation for a more risky aggressive portfolio.

And the recently launched SPDR Gold MiniShares ETF (GLDM) with an expense ratio of just **18 basis points** — our lowest cost gold product — makes it easier to construct a cost-efficient core that includes gold exposure.

Figure 1: Adding Gold May Improve Risk-Adjusted Returns

Hypothetical Asset Allocations	20-Year Annualized					1-Year Return	
	Return	Standard Deviation	Return Per Unit of Risk	Recovery Period	Max Drawdown	Worst	Best
Wilshire 5000 Total Market Index SM	6.86	15.22	0.45	37 months	-50.96	-43.32	55.65
60% Equity + 40% Bond Portfolio	6.25	9.02	0.69	22 months	-32.93	-28.06	36.68
59% Equity + 35% Bond + 6% Gold Portfolio	6.43	9.08	0.71	20 months	-31.75	-27.81	36.50

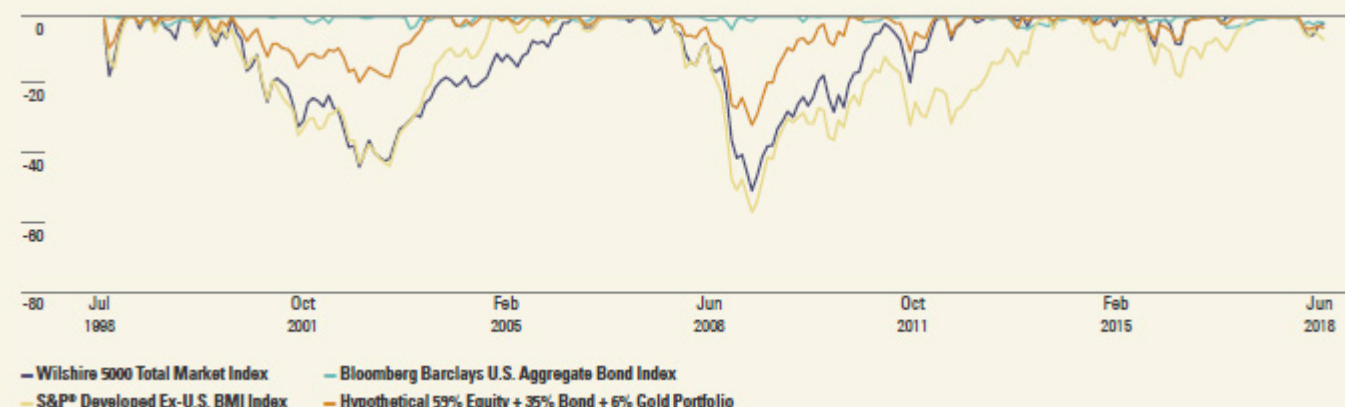
Index results do not represent actual ETF results and are for illustrative purposes only.

Source: FactSet, for the period from 07/01/1998 to 06/30/2018. The 60% Equity + 40% Bond Portfolio consists of 31% of the Wilshire 5000 Total Market Index, 29% of the S&P Developed ex-U.S. Broad Market Index, and 40% of the Bloomberg Barclays U.S. Aggregate Bond Index, rebalanced annually, without taking into account transaction costs. The 59% Equity + 35% Bond + 6% Gold Portfolio consists of 30% of the Wilshire 5000 Total Market Index, 29% of the S&P Developed ex-U.S. BMI Index, 35% of the Bloomberg Barclays U.S. Aggregate Bond Index, and 6% of the LBMA Gold Price PM, rebalanced annually, without taking into account transaction costs. The returns were achieved by mathematically combining the actual performance of the indexes listed above. Past performance is not a guarantee of future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Performance returns for periods of less than one year are not annualized.

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Figure 2: Broaden Reach for Potential Drawdown Mitigation



Source: FactSet, as of 06/30/2018. The 59% Equity + 35% Bond + 6% Gold Portfolio consists of 30% of the Wilshire 5000 Total Market Index, 29% of the S&P Developed ex-U.S. BMI Index, 35% of the Bloomberg Barclays U.S. Aggregate Bond Index, and 6% of the LBMA Gold Price PM, rebalanced annually, without taking into account transaction costs. The returns were achieved by mathematically combining the actual performance of the indexes listed above for the period from July 1, 1998 through June 30, 2018. Past performance is not a guarantee of future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Performance returns for periods of less than one year are not annualized.

Ready to Add Gold? Consider 5 Hypothetical Cores, from Conservative to Aggressive

In Build Your Core with SPDR Portfolio ETFsTM, We highlighted 5 hypothetical core examples using US equities, international equities and fixed income that can be tailored to clients’ risk and return requirements ranging from conservative to aggressive. Now, we’re introducing the same 5 hypothetical core examples with an allocation to gold as shown in Figure 3.

If a client is more focused on capital growth over the longer term, a portfolio can be tailored to move up the risk spectrum and allocate more to equities, becoming more equity-like, as measured by the beta to the S&P 500[®] Index, and less bond-like, as measured by the beta to the Bloomberg Barclays U.S. Aggregate Bond Index.

Equity market fluctuations historically typically have a larger impact on more risk-seeking portfolios, while shifts in the bond market typically impact more risk-averse allocations. The difference is most stark when examining the worst 1-year return periods in Figure 2 above, as more bond sensitive hypothetical portfolios would have experienced less significant drawdowns.

Figure 3: Match Core Allocations to Client Risk Profiles



Hypothetical Asset Allocations

Exposure	Conservative	Moderate-Conservative	Moderate	Moderate-Aggressive	Aggressive
■ Wilshire 5000 Total Market Index	9.0	20.0	30.0	37.0	45.0

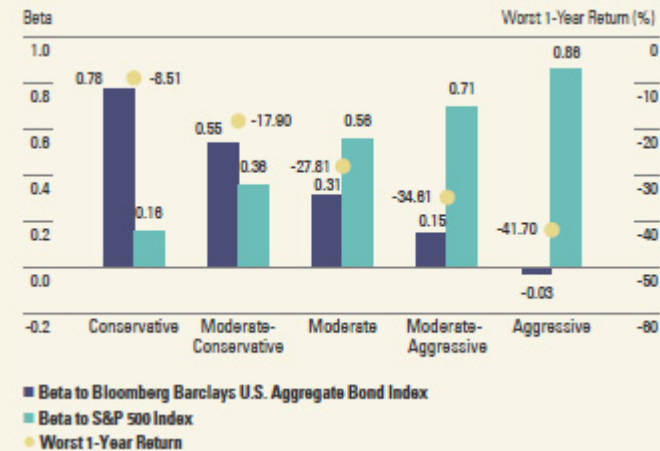
■ S&P 500 Developed ex-U.S. BMI Index	10.0	19.0	29.0	36.0	43.0
■ Bloomberg Barclays U.S. Aggregate Bond Index	79.0	57.0	35.0	19.0	2.0
■ LBMA Gold Price PM	2.0	4.0	6.0	8.0	10.0

Source: State Street Global Advisors, as of 06/30/2018. **All asset allocation scenarios are for hypothetical purposes only and are not intended to represent a specific asset allocation strategy or recommend a particular allocation. Each investor's situation is unique and asset allocation decisions should be based on an investor's risk tolerance, time horizon and financial situation.**

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However, the risk and return relationship is generally asymmetrical. The hypothetical Conservative allocation with 19% equities would have had some sensitivity to the stock market, while the hypothetical Aggressive allocation with only 2% bonds would have had nearly no sensitivity to the bond market. This underscores how even slight asset allocation differences may impact risk and return, as shown in Figure 4.

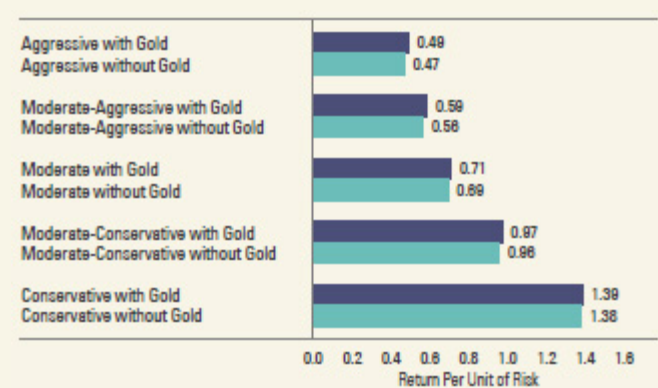
Figure 4: Hypothetical Portfolio Sensitivities to Stocks and Bonds



Index results do not represent actual ETF results and are for illustrative purposes only. Source: FactSet, for the period from July 1, 1998 through June 30, 2018. Beta is a measure of the volatility of a portfolio in comparison to the benchmark. Worst 1-Year Return is measured for any consecutive 12 month period. Each portfolio is rebalanced annually, without taking into account transaction costs. The returns were achieved by mathematically combining the actual performance of the indexes listed above. Past performance is not a guarantee of future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Performance returns for periods of less than one year are not annualized.

Figure 5 further illustrates the impact of moving up and down the risk spectrum and how modest adjustments to an allocation may dictate risk sensitivities. An increasing allocation to gold for the more risky hypothetical portfolios would have helped increase risk-adjusted returns in the hypothetical core examples.

Figure 5: 20-Year Risk/Return Profile for Hypothetical Portfolios



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Source: FactSet, for the period from July 1, 1998 through June 30, 2018. The following are the weights for Hypothetical Portfolios without gold. Conservative without Gold represents 10% of the Wilshire 5000 Total Market Index, 10% of the S&P Developed ex-U.S. BMI Index and 80% of the Bloomberg Barclays U.S. Aggregate Bond Index. Moderate-Conservative without Gold represents 21% of the Wilshire 5000 Total Market Index, 19% of the S&P Developed ex-U.S. BMI Index and 60% of the Bloomberg Barclays U.S. Aggregate Bond Index. Moderate without Gold represents 31% of the Wilshire 5000 Total Market Index, 29% of the S&P Developed ex-U.S. BMI Index and 40% of the Bloomberg Barclays U.S. Aggregate Bond Index. Moderate-Aggressive without Gold represents 39% of the Wilshire 5000 Total Market Index, 36% of the S&P Developed ex-U.S. BMI Index and 25% of the Bloomberg Barclays U.S. Aggregate Bond Index. Aggressive without Gold represents 47% of the Wilshire 5000 Total Market Index, 47% of the S&P Developed ex-U.S. BMI Index and 10% of the Bloomberg Barclays U.S. Aggregate Bond Index. Hypothetical Portfolios with gold are represented by Figure 3. Each portfolio is rebalanced annually, without taking into account transaction costs. The returns were achieved by mathematically combining the actual performance of the indexes listed above. Past performance is not a guarantee of future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Performance returns for periods of less than one year are not annualized.

Control Costs with Low-Cost SPDR Portfolio ETFs and GLDM

Again, as the largest part of your portfolio, the core should never be the most expensive component. So, when you add asset classes to the core to pursue performance or help improve stability, it's important to ensure your portfolio's cost profile remains under control.

SPDR Portfolio ETFs, with an average expense ratio of just 6 basis points (bps), cover domestic and international equity and fixed income categories, making it easy to construct relatively cost-efficient customized cores. And, GLDM's gold ETF industry-low expense ratio of 18 bps makes it relatively cost-effective to further customize cores with gold exposure.

For thoughts on how you can build portfolios that match your clients' risk/return objectives, check out the five illustrative allocation examples in Figure 6. From

conservative to aggressive allocations, each of these portfolios seeks to enhance diversification by offering varying exposures to gold. And because weighted average expense ratios range from 4.2 to 5.0 bps, you keep more of your potential return.⁵

At State Street Global Advisors, we have a dedicated team of gold strategists that can provide their expertise on how one can consider allocating gold to a portfolio. That's why we continuously innovate our gold products to meet client needs and market demand.

- ¹ Gary P. Brinson, L. Randolph Hood, Gilbert L. Beebower, "Determinants of Portfolio Performance", Financial Analyst Journal Vol.42 Issue 4 1986.
- ² Coval and Moskowitz, "Home Bias at Home: Local Equity Preference in Domestic Portfolios." Journal of Finance, December 1999.
- ³ World Economic Outlook, "International Monetary Fund." April 2018.
- ⁴ Return Per Unit of Risk is calculated by dividing returns by the standard deviation for the same time period.
- ⁵ State Street Global Advisors, as of 06/30/2018.

Figure 6: 5 Hypothetical Risk-based Core Portfolio Examples — for 5 Basis Points and Under



Exposure	Fund	Ticker	Conservative	Moderate-Conservative	Moderate	Moderate-Aggressive	Aggressive
■ US Equities	SPDR Portfolio Total Stock Market ETF	SPTM	9.0	20.0	30.0	37.0	45.0
■ Ex-US Equities	SPDR Portfolio Developed World ex-U.S. ETF	SPDW	10.0	19.0	29.0	36.0	43.0
■ Bonds	SPDR Portfolio Aggregate Bond ETF	SPAB	79.0	57.0	35.0	19.0	2.0
■ Gold	SPDR Gold MiniShares ETF	GLDM	2.0	4.0	6.0	8.0	10.0
Weighted Average Expense (Basis Points)			4.2	4.4	4.5	4.8	5.0

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Commodities and commodity-index linked securities may be affected by changes in overall market movements, changes in interest rates, and other factors such as weather, disease, embargoes, or political and regulatory developments, as well as trading activity of speculators and arbitrageurs in the underlying commodities.

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Past performance is not a guarantee of future results.

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GLDM shares trade like stocks, are subject to investment risk and will fluctuate in market value. The value of GLDM shares relates directly to the value of the gold held by GLDM (less its expenses), and fluctuations in the price of gold could materially and adversely affect an investment in the shares. The price received upon the sale of the shares, which trade at market price, may be more or less than the value of the gold represented by them. GLDM does not generate any income, and as GLDM regularly sells gold to pay for its ongoing expenses, the amount of gold represented by each Share will decline over time to that extent.

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For more information, please contact the Marketing Agent for GLDM: State Street Global Advisors Funds Distributors, LLC, One Iron Street, Boston, MA, 02210; T: +1 866 320 4053 spdrgoldshares.com.

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