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# ALL THAT GLITTERS

## GOLD CAN BE AN ENTICING INVESTMENT – BUT IS IT SUITABLE FOR SUSTAINABLE STRATEGIES?

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**As the world goes greener, the sustainability of various investments is a topic that's gaining popularity. People want to know about the effects their investments are having on the planet and the world at large. While it may be obvious that investing in fossil fuels contributes to climate change, the environmental, social and governance (ESG) effects of many other commodities and sectors are a lot less clear.**

As with any investment, our team (the responsible investment team) is charged with evaluating a sector or company's ESG credentials. We were recently asked to consider how gold stacked up from a sustainability perspective.

## HOW DOES GOLD WORK AS AN INVESTMENT?

Gold is considered to be a particularly effective store of value in times of stress, as, in theory, the metal will always be desirable and is not part of the credit system. To this end, gold is often considered to be one of the most stable forms of investment and a safe haven in tough economic times. However, investing in gold is a little more complicated than investing in stocks and bonds as it's neither straightforward nor advisable for investors to just buy a bar of gold. While some still use physical forms of gold in order to acquire a gold investment, many now invest in the commodity through the use of options, futures or a gold exchange-traded fund (ETF). It is also possible to gain exposure to gold via investing in mining processes.

When assessing the merits of gold, it's important to distinguish between investing in physical gold and investing in gold-mining processes. We believe that the process of mining gold presents far greater risks from an ESG standpoint, so we evaluated the two components of gold investing separately.


## IS GOLD MINING SUSTAINABLE?

From an environmental perspective, gold mining gives rise to many issues. Gold is a natural resource and must therefore be extracted from the ground. The destruction of habitats, the massive energy and water required for extraction and milling, and the use of cyanide to leach gold from the ore, all contribute towards the destruction of the planet. It can be necessary to mine up to 92 tonnes of rock to obtain a single ounce of gold.[1]

There are often social and governance issues too, including human rights abuses and corruption. Gold can play a positive role in the economy, primarily through its contribution to economic stability by acting as an investment safe haven and currency peg, and through the additional economic growth created from mining; for every $1 invested in a mining project, an additional $3+ is generated elsewhere in the host country.[2] However, we do not think that these points outweigh the negatives. The process of extracting gold from the ground is exploitative of the environment, individuals and communities and, therefore, until we see material improvement from the sector, we have decided that the whole gold mining area is ineligible for inclusion in our sustainable strategies.

[1] Barrick Gold Mine Statistics
[2] World Gold Council – The Social and Economic Impacts of Gold Mining, 2015

# WHAT ABOUT THE GOLD WE ALREADY HAVE?

While we believe that further gold mining is an unsustainable activity from an ESG perspective, we can't ignore the significant amounts of gold already above ground. There are lots of attractive ESG aspects of physical gold, including the minimal energy required for storage (unlike cryptocurrencies), the fact it is always recycled and the fact that annual mining production is immaterial. There is also negligible negative externality from owning an ETF, which often comprises just an inert metal sitting in a vault. Arguably, investing in gold incentivises further mining projects, and we engage with the extractives sector to encourage responsible mining.[3]

In the case of gold ETFs, we evaluate each investment opportunity individually. Through our robust ESG screening process, we have identified an ETF that owns physical gold, rather than having gold investments that are based on financial instruments, meaning that only small physical flows go into and out of the holding. This means that, while we have concluded that gold-mining equities and bonds are currently unsuitable for sustainable strategies, we believe there are some gold ETFs that satisfy our inclusion criteria.

[3] World Gold Council - https://www.gold.org/about-gold/gold-supply/gold-mining/how-much-gold

## Want to find out more?

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## Important information