

FREQUENTLY ASKED QUESTIONS

What is gold hedged investing?

Gold hedged investing is the application of an overlay to an investment portfolio that gives the portfolio exposure to the price movements of gold.

Why not invest directly in gold?

A direct investment in gold, such as owning either physical gold or a fund that owns physical gold, requires an upfront payment to purchase the asset. To finance this upfront payment, an investor may need to sell other assets, such as equities, which can change an asset allocation mix. A futures contract, by contrast, is an agreement to purchase the asset at a future point in time. Instead, gold hedged investing takes exposure to the price fluctuations of gold via futures in an amount approximately equal to the amount of equity exposure, and rolls the futures before they expire.

What makes gold a currency?

Gold is considered to be "money" or a "currency" by many notable investors and financiers including J. Pierpont Morgan, Alan Greenspan, and Ray Dalio (founder of Bridgewater, at times the world's largest hedge fund). It is considered so because it meets the six tests necessary for any substance to be considered a currency: durability, portability, divisibility, uniformity, acceptability, and limited supply.

How is gold a US dollar hedge?

The value of a currency can only be measured vs. another currency or vs. a basket of goods. In that sense, gold is a USD hedge when measured in terms of gold, as the correlation is -1.0. However, gold may still be viewed as a good overall USD hedge when compared against a basket of foreign currencies that include EUR, JPY, GBP and other major currencies, as gold has -0.4 correlation with the basket's change against the dollar over the period from December 29, 2005 through December 30, 2015.

Can gold act as a hedge during tail events?

Gold can reduce portfolio losses during some, but not all, events that give rise to sudden, extreme market downturns. These downturns are often referred to as "tail events." In particular, gold can reduce portfolio losses during financial-related economic downturns, which may give rise to a "flight to quality." For more information, see World Gold Council: *Gold: hedging against tail risk*, September 2010.



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How is gold an EM currency hedge?

Emerging market currencies can often be expensive to hedge, both because of interest rate differentials and high transaction costs that may be associated with trading such currencies. However, emerging market currency may fall sharply during "flight to quality" situations. Because flight to quality may positively impact the price of gold, gold can act as a hedge against the risk of this type of situation.

Why not gold-hedge my own portfolio?

An investor with the ability to trade gold futures contracts and who was willing to periodically roll and rebalance their gold futures exposure could gold hedge their own portfolio.

Does gold diversify a portfolio?

Historically, gold has shown low and sometimes negative correlations to equity markets while exhibiting positive returns over long time periods. On this basis, gold is generally considered a valid way to diversify equity portfolios.

Is there "contango" or "backwardation" risk?

Yes. If gold hedged investing takes gold exposure via futures, the total performance of the investment will be affected if the future level of gold is higher than the current price of gold (a condition typically referred to as "contango") or lower than the current price of gold (a condition typically referred to as "backwardation"). However, because it is relatively straightforward to hold and store gold, the future price of gold may experience less fluctuation relative to its current price than may be the case for commodities that are perishable or expensive to store.

Who is REX?

REX Shares, LLC (REX) creates and delivers intelligently engineered ETFs that address access and efficiency problems. REX was founded in 2014 with a focus on gold hedged equity investment strategies. These strategies provide a way to gain gold exposure within portfolios without sacrificing existing asset allocations. Greg King, REX founder, has a track record as an entrepreneur in the ETF industry and has brought innovation and transformational product engineering to the space. In 2006 he created the iPath™ platform for Barclays and subsequently co-founded VelocityShares™, LLC. REX is based in Westport, Connecticut.



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