Introduction to Session Two: Diversification – Balancing Risk and Reward

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Good morning, ladies and gentlemen. I'd like to welcome you all warmly to the second session of the LBMA Conference. Just by way of introduction, I'd like to acknowledge with a few words something about the close working relationship between the LBMA and the Bank of England. Really this comes from several different aspects of the work which we do together.

The first is our separate responsibilities for maintaining the voluntary code of conduct in London, which covers trading in the bullion market, the foreign exchange market, and the wholesale money market and is known as the *Non-Investment Products Code*. In the bullion section, the work is led by the LBMA and the whole is coordinated by the Bank of England. Partly on that basis, I am glad to be invited to the LBMA's Management Committee meetings as an observer. I'd just like to pay tribute to the professionalism and integrity with which I see the Management Committee operating for the best interests of the global marketplace for bullion.

A second reason for our close working relationship is, of course, the Bank of England's own gold vaults and the very significant amount of gold we hold there, which is very central to the physical market. I won't say any more about that this morning.

A third reason is the fact that, contrary to some people's beliefs, the UK government still holds a sizable chunk of gold in its own foreign exchange reserves – at last count, approximately 313 tonnes of gold are still there. This is managed by the Bank of England on behalf of the government, and the value of that gold contributes something like 25% of our net foreign currency and gold reserves.

There are various reasons both in favour and against holding gold in our reserves, but one of the main reasons in favour is the diversification benefits that it brings. This brings me neatly onto the subject of this morning's speeches. We have three speakers, each of whom will look at the role of gold in generating diversification. Each really represents a different group of investors and their viewpoint.

First, my friend and fellow central banker Jean-François Rigaudy will be taking the view seen by central bankers and the role of gold in reserves management. Jean-François is the head of treasury at the Bank of International Settlements in Basel, often described as the central bankers' bank. They run various fund management operations on behalf of other central banks, and that gives Jean-François a relatively unique insight into a range of central bankers' views.

Our second speaker will be Mr Jelle Beenen. Mr Beenen is the manager of commodities and quantitative analysis at PGGM Investments, which is a very large pension fund in the Netherlands. He will be looking at the comparative advantages of gold versus other commodities in diversifying the assets of a pension fund.

Our third speaker, Mr Marcus Mezger, is a senior portfolio manager at Baden-Württembergische Bank in Stuttgart, Germany, where he heads the global equity and commodity market strategies – including managing a gold fund with more than €100 million of assets under management. Mr Mezger will be examining the general case for gold as an investment vehicle.

We have three different speakers who I suspect will end up with three quite different views and conclusions. The speakers have been asked to talk for around 20 minutes each, leaving us a collective 20 minutes or so for questions at the end. I'd be grateful if you could be thinking about your questions as the session progresses.■