Summary
- Gold has been used as currency for millenia and has been connected to contemporary financial markets for centuries.
- Gold prices have soared in recent times, up 28 per cent in 2024 and 20 in the first part of 2025.
- Pensions traditionally hold small amounts of gold, if any, and this usually through ETFs.
- Increasingly schemes in the UK and Europe have been taking an interest in direct gold investment.
- ESG challenges exist, including sanction risk and environmental issues connected with mining, although the industry has put in place strict rules to mitigate these risks.
- Past performance does not translate into future success but gold is not an asset that will lose its shine any time soon.

Gold rush

Sandra Haurant explores the increasing pension fund interest in gold investment

Gold holds a special place in the human psyche, and as a precious commodity its history has long been intertwined with the history of money and finance. The Royal Mint's market insights manager, Stuart O'Reilly, says: "We have been using gold as currency for thousands of years, and wherever it has been found, it has always been seen as a symbol of power and prestige and purity."

The first gold coin was minted in the sixth century BCE in Lydia (modern-day Turkey), but it was in Britain in 1717 that currency was first – accidentally – pegged to gold by Sir Isaac Newton when an error in exchange rate between silver and gold put silver coins out of circulation. This de facto 'gold standard' was adopted officially, and globally, in the 19th century, and remained in place until the latter part of the 20th century.

Today, investment in gold takes different forms, including physical gold bullion held in a vault, investing through gold-backed exchange-traded commodities (ETC) or exchange-traded funds (ETFs), shares in gold-mining companies, and gold futures (a contract to trade gold at a future date for a pre-determined price). For pensions, it traditionally plays a small part, through multi-asset ETFs for example, but O'Reilly says that the Royal Mint has been having "more conversations with pension funds than we were a few years ago," with defined benefit schemes from the UK and across Europe wanting to hold gold in the Royal Mint's vaults.

One explanation, Lewis says, could be: "Defined benefit schemes are well-funded and, generally speaking, they are looking to de-risk. Many are sitting in low-risk portfolios and perhaps there is an opportunity to offer trustees the chance to look at U-shaped de-risking and whether you can afford to bring more returns into the portfolio."

But, O'Reilly says: "The main role of gold for pensions is as a diversifier, and it is particularly good at this. In periods of growth, it is just about correlated to equities, but when there is a market shock it tends to be inversely correlated."

A golden era?

Long perceived as a safe haven, holding its value in difficult times, gold has certainly had a glittering run recently, outshining many of the major indices over the past 18 months. In 2024 its value surged by around 28 per cent, and in the first half of 2025 it was already up by 20 per cent.

But, as Lewis says, it's important to look past the headline figures. "Currently *[gold]* is at the highest levels it has been in the modern era," Lewis says. "But what is interesting is that if you'd invested in gold in 1980 *[when it* *peaked]* it would have taken until pretty much now to get back that valuation – so multiple decades.”

“It definitely has some attractive characteristics,” says Lewis, but it is crucial to consider gold as part of the bigger picture. After all, unlike equities or bonds, gold doesn’t provide any income – indeed, there are costs involved in holding it. In a lot of cases, it doesn’t really do very much at all. While there is demand for gold to make jewellery and for use in technology, it spends much of its time sitting in a vault until the investor decides to sell up.

“Gold does perform well in periods of geopolitical uncertainty, but we need to consider how it would fit in and what would be taken out to make room for it in a portfolio,” says Lewis. “Gold is at an all-time high and if you invested now, it could be a long time before you get back to those valuations.”

Precious commodities

Gold, then, is an unusual proposition. L&G multi-asset fund manager, asset management, James Giblin, explains: “One way to view gold is as a zero-coupon, inflation-linked bond. That is why gold has historically moved inversely to real yields.” And, he adds: “Historically that has meant gold has worked well when riskier assets were underperforming. Gold should also provide a long-term inflation hedge – although this is something of a self-fulfilling prophecy rather than an intrinsic property.” This is because in high economic times, demand for gold increases for jewellery and so on, and when markets are in the doldrums there is an increased demand from investors who believe that it will hold its value until the next upswing.

There are, then, attractive features, but Giblin says: “For investors, the question is: At what cost can you access these benefits? And do you need them?” Because, while in theory investors are rewarded for taking on market risk (the risk premium), says Giblin: “Research shows market risk isn’t the only thing that matters.”

He continues: “Good hedges like gold should be expected to have lower returns over the long term. That matters for pensions. Both academic and our own research also show that inflation hedging is costly – inflation shocks are particularly painful so assets that hedge inflation shocks well typically have lower Sharpe ratios.” (Sharpe ratio is a measure of risk-adjusted performance, which is calculated by comparing performance to that of a risk-free asset.) The price might well be worth paying, but Giblin argues that other assets (equities, alternatives like real estate and private or public infrastructure) can offer similar benefits over the long term.

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“Crucially, gold is not issued by a government,” he adds. “That brings two more potential benefits. First, gold can be held outside of traditional financial infrastructure, reducing the risk of government seizure. Second, gold is not linked to any government deficit, a benefit for those worried about financial sustainability.”

This, Giblin says, has become even more important recently, for central banks and governments who are worried about risks connected to the US government’s use of the dollar financial system to impose sanctions, and the country’s economy and fiscal deficits more generally.

Dark matter

There are other risks, too. In 2023 the National Crime Agency (NCA) published a red alert warning of the risks of sanction-breaking Russian gold entering the market illegally. The NCA said: “Traders, financial institutions and other market participants should ensure that, as part of their due diligence, they are aware of the common circumvention techniques […] and the risks and obligations in relation to Russia sanctions and gold.” In other words, it’s a worry. And as Giblin puts it: “Sanction risk is not something many pension funds should be worrying about or paying for protection against.” This is something the Royal Mint is acutely aware of, too, according to O’Reilly: “We had Russian bars, and we have taken those out of our funds,” he says.

And there are plenty of other issues that could challenge a pension scheme’s ESG strategy. “With any commodity, you are digging it out of the ground, and there will be issues around that,” says O’Reilly, adding: “We are trying to be very transparent. We screen out on an ethical basis; 95 per cent of our gold is responsible gold.” The Royal Mint says it has increasingly moved towards recycled gold (51 per cent of bars are made from 100 per cent recycled gold) and all its bars adhere to strict criteria put in place by the London Bullion Market Association (LBMA) – the industry body LBMA that sets standards for gold refineries covering anti-money laundering rules, terrorist financing, human rights and sustainability issues. And, says O’Reilly, when gold is held in vaults it is a very low carbon exercise, with no lighting or heating.

After an impressive run for this precious metal, it is impossible to state with certainty where prices are going next. Past performance is famously never a way to predict future success. But one thing seems sure: Gold will continue to hold a large place in the collective psyche, and perhaps a smaller place in pensions’ portfolios, for a long time to come.

Written by Sandra Haurant, a freelance journalist