A Case For...
Gold – A Unique Asset Class

Gold—it is unlike all other elements on earth. Virtually indestructible, this precious metal has been the source of countless fables and has mobilized the growth of nations and financial infrastructures worldwide. Human beings have been utilizing gold as both a form of currency and an investment for thousands of years.

As an asset class, gold is unique. Gold is durable and has excellent liquidity [1] as one of the world's deepest commodity markets, second only to oil.[2] The economic forces that determine the price of gold are different from the economic forces that determine the price of many other asset classes such as equities, bonds or real estate. Gold offers investors an attractive opportunity to diversify their portfolios—potentially reducing overall portfolio risk.[3]

SOLID AS GOLD: THE ENDURING ARCHETYPE

The history of gold is as old as time itself. With references to gold in the text of Genesis, to the myths of Jason and King Midas and the legend of King Solomon's mines, gold has long been a symbol of wealth, freedom and power. Empires and nations—from Charlemagne to the Spanish conquest of the "New World" and on through to the American frontier movement—all were mobilized by the pursuit of gold or built upon its promise.

Though its first use appears to have been for ornamentation, sculpture or jewelry, gold has been employed most prominently through the ages as a store of financial value—or as currency. From Ancient Egypt to modern day Britain, gold became the standard medium of exchange for trade and was the standard measure upon which monetary systems were based.

THE GOLD STANDARD

Eventually, various forms of currency and paper monies emerged and most modern nations adopted a gold standard (i.e., currency could be redeemed in gold). In its most formal sense, the gold standard was a financial system established with the aim of stabilizing the global economy. It dictated that a nation could not issue currency in excess of the amount of gold it held in reserve. Great Britain was the first to officially adopt the standard in 1821. The rest of Europe followed in the 1870s and the system remained intact until the end of World War I. Following the war, the US was the only country to keep the gold standard. After the war, other countries were allowed to keep reserves of major currencies instead of gold.

When in 1934, the US devalued the dollar by raising the price of gold to $35 per ounce, holders of gold around the world sold their holdings to the US. By the end of World War II, US holdings of gold accounted for nearly 65% of official world stocks. At their peak in the 1960s, worldwide official gold stocks accounted for approximately 50% or more of all above-ground gold. Central banks were keeping all of this gold as a result of the fixed dollar price and the dollar's convertibility to gold. Gold, in essence, was still the foundation of the international monetary system. Though there was no direct link between gold holdings and national monetary supplies, gold was still the primary reserve asset. Central banks could convert dollar balances into gold at the official price.

Gradually, however, central banks created more money than was consistent with stable prices and the fixed official gold price became unrealistic. As the pivot of the world financial system, the US was faced with the choice of deflating, devaluing or abandoning the system. In 1971, the US abandoned the system and the dollars held by foreign central banks could no longer be converted to gold. In 1973, the US abandoned the gold standard altogether and gold prices were allowed to float freely.

USES FOR GOLD TODAY

Highly malleable, ductile and impervious to tarnishing, gold is one of the most beautiful and useful elements in the world. It can be hammered into sheets so thin that light can pass through, and a single ounce can be drawn into a wire fifty miles long. Gold's chemical and physical properties make it valuable in a wide array of everyday applications. Though jewelry accounts for about 68% of the annual consumption of gold today, gold is also used in telecommunications, information technology and various industrial applications.[3] Highly conductive, gold is used in the manufacturing of millions of computers each year, as well as millions of televisions, DVDs, video cameras and mobile phones. Additionally, because it is non-toxic and biologically benign, gold has proven to be a valuable tool in the treatment of medical conditions from heart disease and prostate cancer to bacterial diseases and arthritis.[5]

SUPPLY & DEMAND

Ever since the gold standard was abandoned, gold prices have been driven by supply and demand. Though it can be found on nearly every continent in the world, relative to many other metals, gold is scarce. In fact, if we were to compress the world's total above-ground stocks of gold into one space, it would amount to a single cube 66 x 66 x 66 feet.[6]

Extracting gold is not easy or inexpensive. At average grades, it takes about five tonnes of ore to yield even one ounce of gold. New mine supply has remained relatively constant for the past five years and "grass roots" exploration spending has returned to the peak levels seen in 1997. Global demand in 2009 reached 4,026 tonnes.[7] Scrap supply and central bank sales typically make up the shortfall between mine production and global demand (Figure 2, next page).

1 Although shares of GLD have historically been readily tradable on securities exchanges, there can be no assurance that an active trading market will be maintained.
2 GMFS Limited, World Gold Council. http://www.gfms.co.uk/publications_gold_survey.htm
3 Based on the historic lack of correlation with other asset classes. There can be no assurance that gold will continue to have low correlation with other asset classes. Diversification does not sensure a profit guarantee against loss.
4 World Gold Council, An Investor's Guide to the Gold Markets. (US Edition), April 2010.
5 Gold Uses: Medicine and Health Page. The Gold Institute. September 2004. www.goldinstitute.org
6 World Gold Council, October 2009.
7 GFMS – Gold Survey 2009.

GOLD THROUGH THE CENTURIES

- **3000 BC** — The Sumer civilization of southern Iraq uses gold to create a wide range of jewelry, often using sophisticated and varied styles still worn today.
- **1500 BC** — The immense gold-bearing regions of Nubia make Egypt a wealthy nation, as gold becomes the recognized standard medium of exchange for international trade.
- **1091 BC** — Little squares of gold are legalized in China as a form of money.
- **560 BC** — The first coins made purely from gold are minted in Lydia, a kingdom of Asia Minor.
- **344 BC** — Alexander the Great crosses the Hellespont with 40,000 men, beginning one of the most extraordinary campaigns in military history and seizing vast quantities of gold from the Persian Empire.
- **58 BC** — After a victorious campaign in Gaul, Julius Caesar brings back enough gold to give 200 coins to each of his soldiers and repay all of Rome's debts.
- **742 – 814 AD** — Charlemagne overruns the Avars and plunders their vast quantities of gold, making it possible for him to take control over much of Western Europe.
- **1284 AD** — Venice introduces the gold Ducat, which soon becomes the most popular coin in the world and remains so for more than five centuries.
- **1511 AD** — King Ferdinand of Spain says to explorers, "Get gold, humanely if you can, but all hazards, get gold," launching massive expeditions to the newly discovered lands of the Western Hemisphere.
- **1717 AD** — Isaac Newton, Master of the London Mint, sets the price of gold that lasts for 200 years.
- **1848 AD** — The California gold rush begins when James Marshall finds specks of gold in the water at John Sutter's sawmill near the junction of the American and Sacramento Rivers.
- **1886 AD** — George Harrison, while digging stones to build a house, discovers gold in South Africa.
- **1900 AD** — The US adopts the gold standard for its currency.
- **1933 AD** — President Franklin D. Roosevelt bans the export of gold, halts the convertibility of dollar bills into gold, orders US citizens to hand in all the gold they possess and establishes a daily price for gold.
- **1944 AD** — The Bretton Woods agreement sets an international gold exchange standard and creates two new international organizations, the International Monetary Fund (IMF) and the World Bank. The new standard sets par values for currencies in terms of gold and obligates member countries to convert foreign official holdings of their currencies into gold at these par values.
- **1971 AD** — On August 15, US terminates all gold sales or purchases, thereby ending conversion of foreign officially held dollars into gold; in December, under the Smithsonian Agreement signed in Washington, US devalues the dollar by raising the official dollar price of gold to $38 per fine troy ounce. Two years later, the US Dollar is removed from gold standard, and gold prices are allowed to float free.
- **1974 AD** — On December 31, US government ends its ban on individual ownership of gold.
- **1980 AD** — Gold reaches intra-day historic high price of $870 on January 21 in New York.
- **1997 AD** — Congress passes Taxpayer Relief Act, allowing purchases of gold bullion coins and bars by US Individual Retirement Accounts, as long as they are of a fineness equal to, or exceeding, 99.5% gold.[8]
- **1999 AD** — 15 large central banks sign the Central Bank Gold Agreement (CBGA), limiting their combined gold sales to 400 tonnes per year. The agreement is renewed in 2004 and again in 2009.
- **2010 AD** — Gold price (on the London PM fix) reaches a record high of $1,237.50/oz. on May 12, 2010.

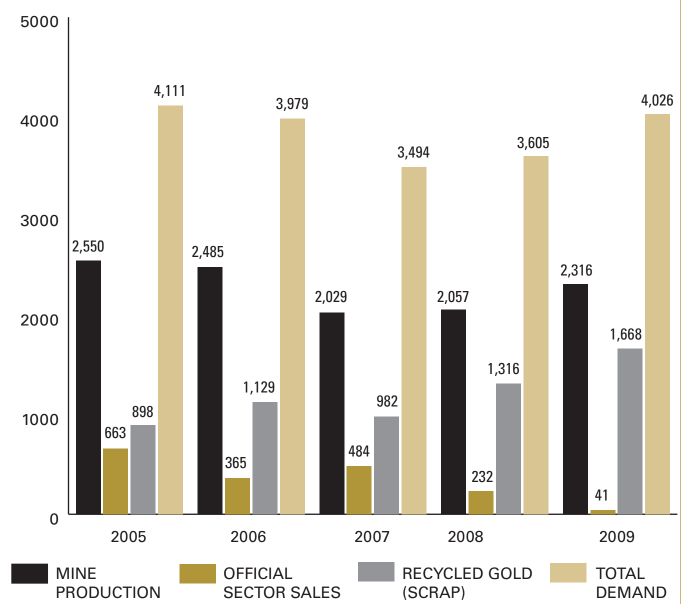
Source: World Gold Council

Of note in 2007 was the sharp increase in the price of gold, starting in September. Gold prices began the year relatively stable, though after news of the financial crisis struck in August investors rushed to purchase gold, pushing up the price. Supply to the market was constrained, falling approximately 3% below 2006 levels.

Gold currently accounts for 10% of global foreign exchange reserves, and central bank holdings of gold currently account for about 20% of total above-ground stocks.[9] Some gold opponents may point to the risk that central banks could "dump" their gold reserves back into the market, thus drastically decreasing the price of gold. This fear may stem from the behavior of some central banks during the 1990s, when central banks engaged in broad selling and lending, and the price of gold fell dramatically.

Today, however, the risk of such central bank sales has lessened. In 1999, certain central banks agreed to abide by the Central Bank Gold Agreement (CBGA), which limited the amount of gold they could sell to 400 tonnes a year, and also set a limit on the volume of gold loaned to the market. Signatories of the CBGA represent roughly 39% of all official sector gold holdings in the world—this from a mere 18 countries. Additionally, these central banks reaffirmed their confidence in the future of gold as a reserve asset. The CBGA was renewed in 2004 and again in 2009. Since CBGA signatories historically have owned large blocks of gold at one time, the agreement has acted as a reassurance for the markets.

FIGURE 2: GOLD SUPPLY & DEMAND FUNDAMENTALS



Source: GFMS - Gold Survey 2009.

[8] Please consult your tax advisor.

[9] World Gold Council.

WHY INVEST IN GOLD BULLION?

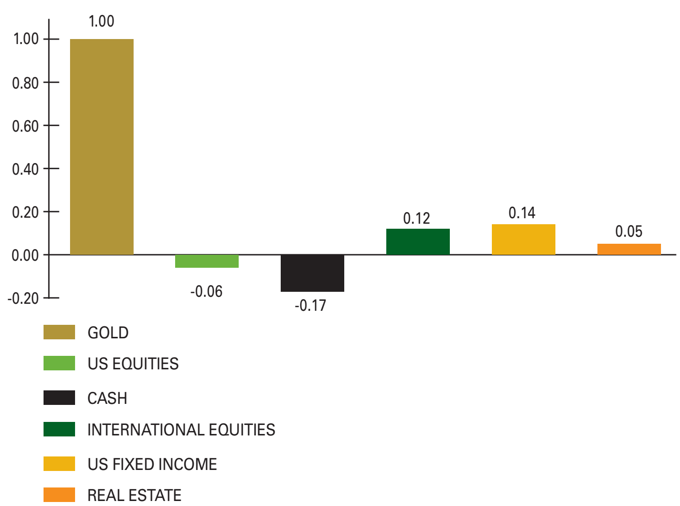
DIVERSIFICATION

Market cycles are unpredictable, making timing the market a risk-laden undertaking. As a result, investors should consider diversifying among a variety of different asset classes. A broadly diversified portfolio that holds a wide range of asset classes—including gold—potentially provides downside protection against short term underperformance; however, diversification does not ensure profit or provide a guarantee against loss.[10]

RISK MANAGEMENT

Price movements in gold bullion tend not to move in tandem with those of traditional asset classes, such as equities and real estate. In other words, gold is considered to be uncorrelated with those asset classes. Historically, gold has shown statistically insignificant correlation with equities and other conventional asset classes (Figure 3 below). Although the aim of diversification is to hold a wide array of assets that perform differently from one another under various market conditions, data has suggested that equity markets tend to become more closely correlated during periods of market turbulence. Conversely, commodities tend to become less correlated with major asset classes during such periods (Figure 4 at right).[11]

FIGURE 3: CORRELATIONS WITH GOLD NOVEMBER 1990 – OCTOBER 2010



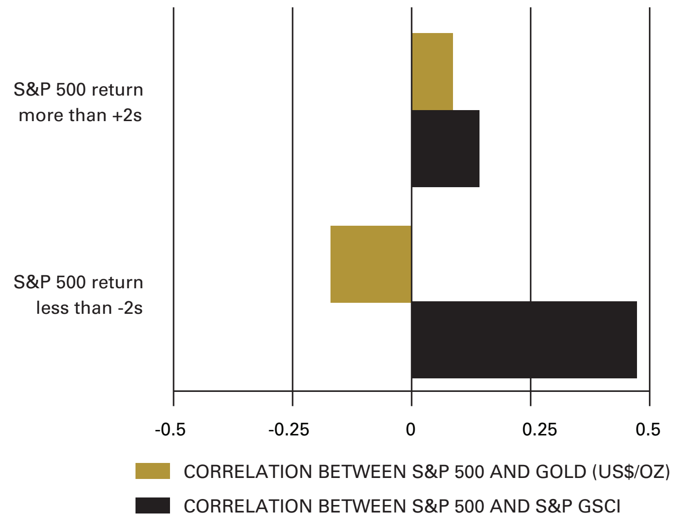
Source: Zephyr StyleADVISOR, State Street Global Advisors Strategy & Research.

Gold: London PM Fixing; US Equities: S&P 500® Index; Cash: Citigroup 3-Month T-Bill Index; International Equities: MSCI EAFE Index; US Fixed Income: Barclays Capital Aggregate Bond Index; Real Estate: Dow Jones U.S. Select REIT Index.

Past performance is no guarantee of future results.

Correlation is the statistical measure of the degree to which the movements of two variables are related.

FIGURE 4: WEEKLY-RETURN CORRELATION BETWEEN EQUTIES, GOLD AND COMMODITIES WHEN EQUITIES MOVE BY MORE THAN 2 STANDARD DEVIATIONS – JANUARY 1987 TO JULY 2010



Source: London Bullion Market Association, Bloomberg, WGC.

In this case, Standard deviation is the measure of dispersion from the average return for the S&P 500. Standard Deviation is generally a measure of volatility. Two Standard Deviations simply means twice the average dispersion.

The S&P GSCI® "Goldman Sachs Commodities Index" is widely recognized as a leading measure of general price movements and inflation in the world economy. It provides investors with a reliable and publicly available benchmark for investment performance in the commodity markets, and is designed to be a "tradable" index. The index is calculated primarily on a world production-weighted basis and is comprised of the principal physical commodities that are the subject of active, liquid futures markets.

GOLD: ATTRACTIVE PROPERTIES IN ANY ECONOMIC ENVIRONMENT

Gold is accepted the world over. Due to its lack of correlation with traditional asset classes as well as with major economic variables, gold may be useful to diversify a portfolio. As noted above, when used in the construction of diversified portfolios, gold potentially helps reduce overall risk to a portfolio; however, as with all investments investing in gold is not without risk. Please see important information below about investing in gold and SPDR Gold Shares.

[10] Gold As A Strategic Asset Class. www.gold.org

[11] Gold Uses: Medicine and Health Page. The Gold Institute. September 2004. www.goldinstitute.org

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IMPORTANT RISK INFORMATION

As with all investments, investing in gold entails risk. There can be no assurance that gold will maintain its long-term value in terms of purchasing power in the future or that gold will continue to exhibit low to negative correlation with other asset classes. You could lose money my investing in gold.

ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.

Neither diversification nor asset allocation ensure profit or guarantee against loss.

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.

The SPDR Gold Trust ("GLD") has filed a registration statement (including a prospectus) with the Securities and Exchange Commission ("SEC") for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents GLD has filed with the SEC for more complete information about GLD and this offering. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov or by visiting www.spdrgoldshares.com. Alternatively, the Trust or any authorized participant will arrange to send you the prospectus if you request it by calling 1-866-320-4053.

GLD shares trade like stocks, are subject to investment risk and will fluctuate in market value. The value of GLD shares relates directly to the value of the gold held by GLD (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. There can be no assurance that the active trading market for GLD shares will be maintained. GLD does not generate any income, and as GLD regularly sells gold to pay for its ongoing expenses, the amount of gold represented by each Share will decline over time. Investing involves risk, and you could lose money on an investment in GLD. Please see the GLD prospectus for a detailed discussion of the risks of investing in GLD shares.

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document includes "forward-looking statements" which generally relate to future events or future performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "it is likely" or the negative of these terms or other comparable terminology.

All statements (other than statements of historical fact) included in this document that address activities, events or developments that will or may occur in the future, including such matters as changes in commodity prices and market conditions (for gold and the Shares), the Trust's operations, the Sponsor's plans and references to the Trust's future success and other similar matters are forward-looking statements. Investors are cautioned that these statements are only projections. Actual events or results may differ materially. These statements are based upon certain assumptions and analyses the Sponsor made based on its perception of historical trends, current conditions and expected future developments, as well as other factors believed appropriate in the circumstances. Whether or not actual results and developments will conform to the Sponsor's expectations and predictions, however, is subject to a number of risks and uncertainties, including, the factors identified in the "Risk Factors" section of the Prospectus filed with the SEC and in other filings made by the Trust from time to time with the SEC. Consequently, all the forward-looking statements made in this material are qualified by these cautionary statements, and there can be no assurance that the actual results or developments the Sponsor or the Marketing Agent anticipates will be realized or, even if substantially realized, that they will result in the expected consequences to, or have the expected effects on, the Trust's operations or the value of the Shares. Neither the Sponsor, the Marketing Agent nor any other person assumes responsibility for the accuracy or completeness of the forward-looking statements. Neither the Trust, the Marketing Agent nor the Sponsor is under a duty to update any of the forward-looking statements to conform such statements to actual results or to reflect a change in the Sponsor's or the Marketing Agent's expectation or projections.

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IBG-2857 Exp. Date: 5/31/2011 IBG.GLD.CF.0111