A 107pc return in six months: Gold funds storm 2016 performance tables

Gold miners have finally caught up with the rise in the price of gold

By Emma-Lou Montgomery

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Specialist gold funds have clocked up incredible gains since the start of the year, with some doubling investors' money. The rally, thanks to a 20pc rise in the gold price, puts them among the best performers of the 3,500 or so collective investments available to British investors.

Investec Global Gold, MFM Junior Gold, Ruffer Gold and Blackrock Gold & General are all among the top performers, while WAY Charteris Gold & Precious Metal and the Smith & Williamson Global Gold & Resources fund have also delivered stand-out performance.

Incredibly, MFM Junior Gold has returned 107pc in six months.

The table below shows the performance over one year while the 2016 returns for each fund are included at the foot of this article.

Should you go for gold?

Gold has staged a rapid turnaround. At the end of April, the gold price moved above the $1,260 an ounce level, taking it 20pc above its December 2015 low of $1,050. It is currently around the $1,245 mark.

Following a decade-long bull-run, the height of which was a peak above $1,900 in August 2011, the price of physical gold fell 21pc between the start of 2011 and the end of last year. But the FTSE Gold Mines index lost 75pc over the same period.

So the performance of gold-mining shares accentuates movements in the gold price both ways.

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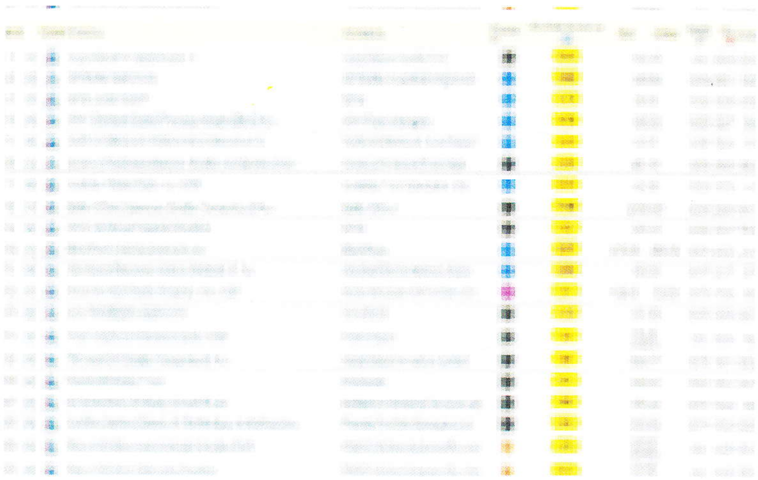
>
> Philippa Gee

Angelos Damaskos, joint co-founder and principal adviser to Junior Gold, said: "For investors who believe that the gold price will continue to rise, the increased operational leverage from gold shares is very attractive. Take a gold-mining company producing at a cost of $600/oz.

"If the gold price is $1,200/oz and it rose by 25pc to $1,500/oz, this would increase the mining company's profit by $300/oz – a rise of 50pc."

The key for the mining companies is to keep their costs of production lower than the price of gold in order to make a profit.



Top 20 funds over one year CREDIT: TRUSTNET

The key for the mining companies is to keep their costs of production lower than the price of gold in order to make a profit. If they manage this over the long term, profits should rise and ultimately benefit the share price.

But many gold mining companies, while benefiting in general from the rising gold price over the past decade, let costs spiral out of control, leading to lower share prices and poor performance from gold funds.

Can price rises continue?

It is still early days for a prolonged recovery. Only at the start of 2016, experts were divided as to whether to buy gold. The strong US dollar and a continued slowdown in China meant many thought the gold price could stay depressed for some time.

But the fundamentals are certainly in place for gold to perform well, as it traditionally does in times of turmoil. There is continued demand from sovereign nations, uncertainty surrounding much of the global economy, geopolitical risks and, closer to home, the EU referendum throwing uncertainty into the investment mix.

All of which should increase the lustre of gold.

James Steel, chief precious metals analyst at HSBC, sees gold as a long-term insurance policy. In his latest briefing note he said the EU referendum could push the rally even further.

"Another bullish driver of gold may be the potential for hedging ahead of the UK's referendum on EU membership", he said. "We continue to see the potential for gold to reach $1,300/oz this year. As well as a weaker dollar, we see global risks and a modest recovery in oil prices as gold-bullish."

There are many who believe that gold, in its physical form, should be a fundamental part of any portfolio. And research from the industry appears to bear this out.

According to BullionVault, a gold investing service, a 10pc holding would have roughly halved portfolio losses in the worst year for equity markets of the past 40. The price paid would have been the reduction, by almost two percentage points, in the average annual growth over a five-year period.

One fund that holds to the 10pc rule is the Personal Assets investment trust, holding that weighting in gold bullion as "our insurance policy against a loss of faith in central bankers," as veteran investment trust chairman, Robin Angus, put it.

Why do they trade on a discount or a premium?

- Since an investment trust is a company in its own right, investors simply buy shares at the prevailing price.
- This price is more or less based on the underlying assets bought by the management team, but varies with demand.
- If an investment trust is popular, it tends to trade on a premium, meaning investors are effectively paying more than the underlying assets are worth.
- An investment trust that trades on a discount gives investors the chance to buy shares at a bargain price.

However, Philippa Gee, an independent financial adviser urged anyone considering investing in gold to proceed with caution. She said: "We need to put this into context; yes the price has increased significantly in recent months, however that is following a steep fall in value which occurred just before.

"Gold tends to be a good 'fear' indicator, so when investors are nervous of certain markets or currencies, they feel they can hide their money in gold for relative safety – although this isn't always the case. So are there any areas of investment which people are worried about at the moment? Absolutely."

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Ms Gee said investors currently face uncertainty everywhere with bonds, equities, property and currency all posing risks. This means that there are very few places to hide and those that are genuinely safe offer very low returns. Wary short-term investors need to be very careful about where they place their money, she said.

As a pure gold mining plays, Ms Gee likes Investec Global Gold and BlackRock Gold & General with their very specific focus.

As she explained: "There are a range of Gold ETFs available, however many of these are denominated in a non-sterling currency and therefore you also hold that additional risk. I would normally point to a range of investment trusts as suitable options for gold hungry investors, however the returns on these have proved more erratic and they are not gold-specific, so you do not have that precise allocation."

The gold funds leading the pack

Investec Global Gold, managed by George Cheveley and Hanré Rossouw, invests more than 91pc of its portfolio in gold producers, and has risen more than 78pc over the past six months.

Its top three holdings are in Barrick Gold, the largest gold mining company in the world, Newmont Mining and Newcrest Mining, two other major gold producers.

MFM Junior Gold has fared even better, seeing a 107pc return over the same period. Co-founded by the late and legendary investor Jim Slater, originally with a focus on mining stocks, the name and slant of the fund changed in October 2010, to predominantly gold mining investments, and it has turned in a stellar performance. Three out of its top five holdings are currently in silver producers.

BlackRock Gold & General, which appears in Hargreaves Lansdown's "Wealth 150" list of the best funds in their sector, has risen over 68pc over the past six months. Co-managed by Evy Hambro and Tom Holl, it focuses on large and medium-sized gold mining companies. Previously known as Merrill Lynch Gold & General, the fund has been around for more than 20 years.

- Check our five golden rules before you invest
- 'Telegraph 25': the definitive list of our favourite investment funds

Ruffer Gold is another star performer, having risen 83pc over the same period. Managed by Paul Kennedy, it focuses on capital growth over the long term by investing principally in gold and precious metals related companies within the mining industry. Its original managers, David Baker and Trevor Steel, who had managed the fund since its launch in October 2003, stood down in 2015, but the investment process has not changed.

Managed by Ani Markova, the Smith & Williamson Global Gold & Resources fund has put in a strong performance over the past six months. Ms Markova said she aims to differentiate her fund from its peers by having a bias towards higher risk early stage mining companies that have the potential to grow rapidly. She also invests in gold bullion funds within the fund when the timing is right, although her current top 10 holdings, bar one, are in mining stocks. The fund is up 78pc over the past six months.

Not entirely dependent on the fortunes of gold miners, but another notable performer is the Lombard Odier World Gold Expertise Fund, managed by Joe Foster, which is up 85pc over the year to date. At least two-thirds of the portfolio is in gold mining companies.

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