Gold manager Williams on his 52% returns in 2019

As bond yields turned negative last year, one gold manager was ready to welcome the influx of investors into the commodity

By **Jack Gilbert**
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As $16tn (£13.1tn) of bonds became negative yielding in 2019, one Asia Pacific Property asset benefited: gold.

Investors shied away from fixed income. In fact, so many funds provided negative guaranteed returns that flows into gold funds picked up. This benefited funds holding precious metals substantially, according to Ian Williams, manager of the Charteris Gold and Precious Metals fund.

Williams' fund, which invests in predominantly Canada-domiciled gold and silver mining companies, returned 52% over 2019 on the back of this gold rush. It was the second best performing fund of any sector in the UK, behind the Asia Pacific Property fund, which returned 95.6%, according to Morningstar data.

But what was the driver behind Williams' stellar metal returns?

'The biggest driver – and this had been going on all last year – has been the negative nominal interest rate,' he says. 'Through this period, you had $16tn of negative nominal yields, and that is just on bonds. That is not on bank deposits.'

As high-net-worth investors were told by their banks they would be charged for holding money in their accounts, gold became a more attractive option, particularly as many of these gold mining companies pay dividends of about 1.5%, Williams says.

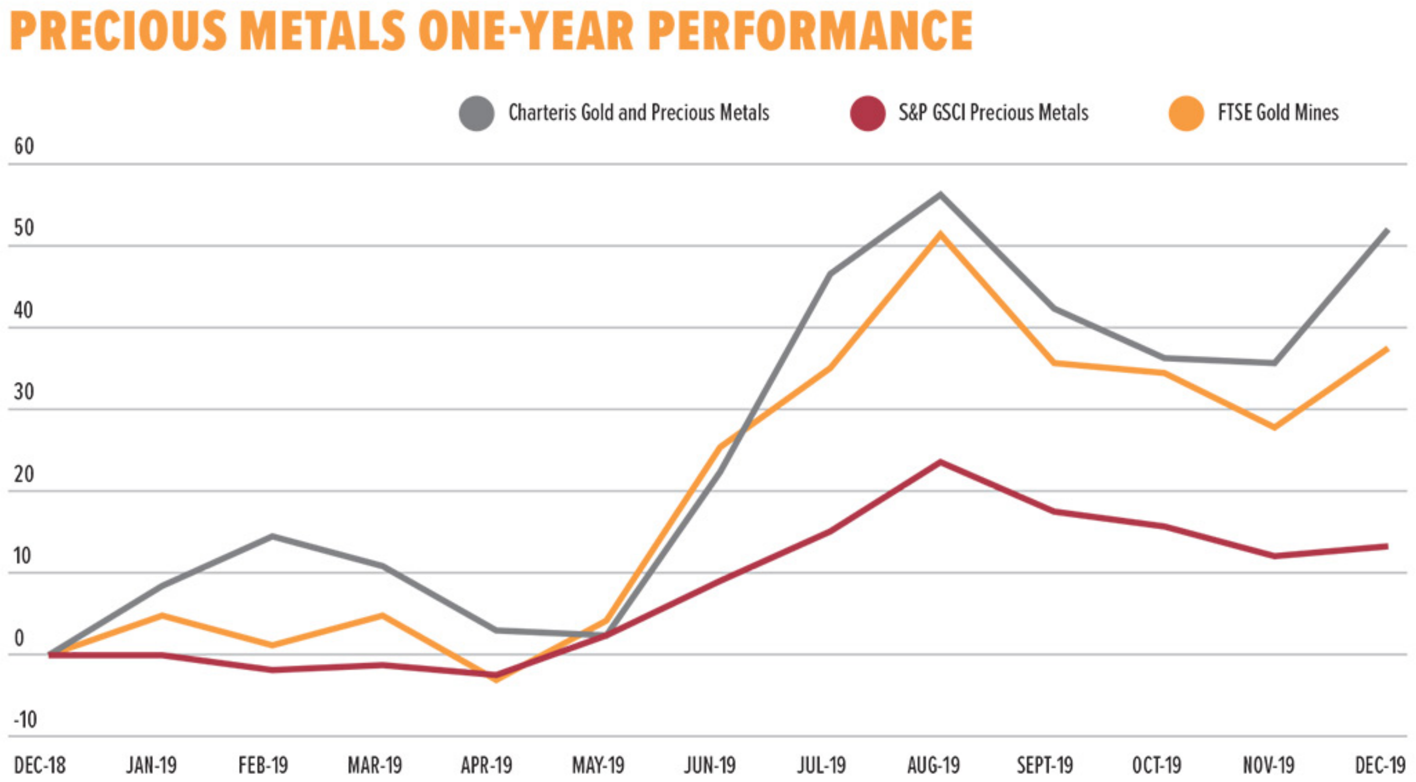
'With something like gold, the gain is not guaranteed. But you stand just as much sporting chance of making money as losing it,' he says. 'You are paid to take the risk, plus you get the dividend income, which you don't get in a lot of the bond markets these days.

'So it is no wonder that investors at the margin are switching into inflation-proof assets, rather than deflation-proof ones. If you go back to the Romans, gold and land are the only things that have held their value.'

Williams adds that another factor for the strong returns of gold funds is that gold mining shares are undervalued compared to the price of gold.

'Gold shares are historically relatively cheap, compared with gold,' he says.

'Gold is recovering from an unloved, depressed position, so it is easier to show big percentage gains coming from there. A gold mining company that has a market cap of £500m can easily go to £900m. It is a function of where you are coming from – the percentage you can grow.'



Small is good

Williams' fund benefited from the rising price of gold in 2019, which went past $1,500 per ounce at the end of the year, and it has performed well compared with peers in the sector.

Williams' fund was the best performing out of 20 funds in the gold and precious metals sector last year, according to Citywire ratings, and returned 52% compared with the ES Gold and Precious Metals fund, which returned just 11.8%.

Williams says this outperformance was driven by its small size (£16.3m at the end of 2019), which allows it to invest in mining companies with small market capitalisations of less than £1bn without paying a premium.

'The liquidity and market cap of gold mining stocks is not enormous. If our fund went to £1bn, that would affect its performance.'

Around a quarter of Williams's holdings have a market capitalisation below $500m.

He adds that strong performance was also helped by the right balance between gold and silver equities, which he splits roughly 46:54 respectively. Unlike many of its competitors, the Charteris fund does not buy currency hedges or derivatives or use leverage to buy stocks, all of which add to costs. Williams says avoiding these financial instruments is another reason why the Charteris fund has outperformed its peers.