FUNDS

A new kingmaker for commodity funds

Everyone’s favourite safe asset is heavily influencing returns

Published on April 16, 2025

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The spectre of recession does not bode well for cyclical assets, and that explains why funds focused on areas such as financials and commodities suffered some big falls in the first half of April.

The commodities story, however, is complicated by a blistering surge in the gold price.

The yellow metal is fulfilling its role as a safe haven and there are some compelling arguments to stick with it even as valuations rise further.

Trade tariffs could be highly inflationary, and many see gold as a good defence in a world of rising prices. Meanwhile, some such as the investment team at **Personal Assets (PNL)**, who appear in an *IC Interviews* podcast due to air on 22 April, argue that gold could act as a de facto reserve currency if the US dollar continues to fall from investor favour.

For now, the metal is proving quite the dividing line for commodity funds. The average fund in the Investment Association's Commodity/Natural Resources sector made a sterling loss of almost 8 per cent in the first half of April, but this number hides plenty of nuance.

Charteris Gold and Precious Metals (GB00BYQ2JY43) returned 2.3 per cent, **Amati Strategic Metals (GB00BMD8NV62)** made roughly the same and **BlackRock World Mining (BRWM)** shares were down by a modest 2.6 per cent, to highlight the top three names.

The reason for the success is clear enough in the case of the Charteris fund, although its diversification has prevented it from enjoying the gold surge to its fullest.

The fund had just under 40 per cent in gold plays at the end of March, while silver makes up 57.8 per cent of the portfolio. The Amati fund, meanwhile, has a 43 per cent allocation to the yellow metal, with 26.2 per cent in silver and small allocations to the likes of nickel and lithium.

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BlackRock World Mining has a broader spread, at least based on its own breakdown. Almost 30 per cent of the portfolio is classed as "diversified", with a further 27.4 per cent in gold-related investments and 22.4 per cent in copper.

BRWM is a stalwart of its sector with a market capitalisation of £900mn, and it might currently look appealing to some given a share price discount to net asset value (NAV) of 10 per cent and a 5 per cent dividend yield.

But the fund has had its share of woes, with the latest dividend payout falling substantially on the back of lower income derived from its underlying portfolio. Stifel analysts warned in March that the payout could well drop again this year, although they did add that the trust looked interesting based on valuation and the fact that inflation could stay higher for longer.

Investors wanting the safe haven qualities of gold can opt to keep it simple and use a physical gold exchange traded commodity (ETC), rather than betting that the likes of miners can do well in such a volatile environment. ETCs such as **Invesco Physical Gold ETC (SLD)** will capture moves in the gold price while missing out on the volatility (but also the occasional huge gains) of funds that buy the likes of mining stocks.

That volatility is amply demonstrated by the experience of the **iShares Oil and Gas Exploration and Production ETF (SPOG)**, the worst performer from the IA sector over our period of analysis with a loss of 17.5 per cent.

This is more evidence that commodity funds, especially those holding listed companies, can be a choppy affair even when accessed through the diversified format of funds.

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