Portfolio update: Golden Prospect Precious Metals

GPM: Gold miners look exceptionally cheap despite a powerful rally...

Update
26 March 2025

- **Golden Prospect Precious Metals (GPM) has recently reported results from a strong year of performance. In the financial year ending 31/12/2024, the NAV total return was 20.4% and the share price total return 20.3%. There is no formal benchmark, but this compares favourably to 17.9% for the VanEck GDXJ Junior Gold Miners ETF and 12.8% for the VanEck GDX Gold Miners ETF.**

- **During the year, the gold spot price rose by 29.7% in sterling terms, and it has continued to strengthen since. Gold miners finally participated in the rally, having been disappointingly weak over 2022 and 2023 when gold was also strong.**

- **However, managers Keith Watson and Rob Crayfourd note that miners remain very cheap and cash generation in the sector is very high, which they think should see miners outstrip the gold price in the near future.**

- **Exceptional returns from Ora Banda (+144%) made it the strongest contributor to returns. While Keith and Rob have top-sliced the position for risk management purposes, it remains the largest holding in the fund.**

- **The managers are focussing on identifying stocks showing value but with catalysts, in particular they are looking for cash-flow positive producers with development assets and high quality management teams.**

- **Over the year, the discount widened very slightly, but it ended the year at 17.6% compared to a 19.6% annual average. It has since widened to 24.8% despite the strong performance. This is due to the NAV soaring another 44% while the share price has struggled to keep up – rising 31.7% in 2025 so far (to 20/03/2025).**

Performance

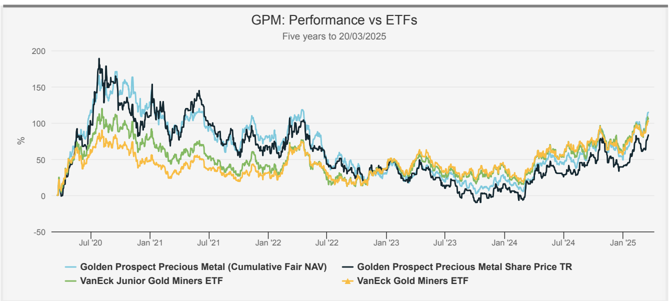
Last year's strong returns were driven by some big gains for individual stocks. Ora Banda, discussed above, remains a high-conviction holding. Meanwhile, Calibre Mining was the second-largest contributor, with share price returns of 54% and Mawson Gold was the third-largest contributor, in a year that saw exceptional returns of 176%. Generally, meaningful returns were provided across the sector, with producers, developers and explorers doing well, and some good performance from the trust's small silver exposure.

Analysts:
Thomas McMahon
+44 (0)203 795 0070

Australian companies were the largest contributors on a geographical level, being the largest allocation over the year. Companies continue to benefit from the weakness in the currency thanks to exposure to Chinese trade, and this is reducing the pressure on costs. Labour costs also continue to ease, one of the major reasons behind profitability lagging the price rise in gold post 2022. Meanwhile, the liberal use of gearing boosted returns by 3.5 percentage points, one of the key drivers of outperformance of the ETFs, which cannot employ leverage.

Over the past five years, **Golden Prospect Precious Metals (GPM)** has much more than doubled investors' money, despite the vicious drawdown seen in 2021 and 2022 (see chart below). GPM performed well ahead of the ETFs in the rally at the start of this period, and has done so in the rally that started in late 2023 / early 2024. A focus on the smaller end of the space and the significant use of gearing are factors contributing to this. The miners' and GPM's shares have historically been volatile and seen periods of exceptional outperformance and significant underperformance. We note the gains made over the past 12 months of 80% are still behind the strong returns made in gold miners in past bull cycles. GPM made a NAV total return of 105% in 2016 and consecutive annual returns of over 60% in 2019 and 2020 and still trades on a c. 25% discount.

Fig.1: Five-Year Performance



Source: Morningstar
Past performance is not a reliable indicator of future results.

Positioning & Outlook

The managers argue the outlook for the gold price remains very strong. Geopolitical tensions have been driving central bank demand and don't seem likely to ease. US trade policy is driving demand for diversification away from the dollar and has the potential to create inflationary pressures, which boost the case for holding gold. The sustainability of the US national debt is also in question. All these fears create demand for gold as a safe-haven asset and a store of value.

Looking at the equities, Keith and Rob highlight that the sector is still exceptionally cheap, having lagged the metal price for much of the recent multi-year rally. Cost pressures have eased, boosting profits and free cash flow. We note any resurgence in inflation could counteract this, although the subsidence of COVID-19 and the Ukraine war influenced trends are likely to be more significant, in our view. The managers are looking for companies that can convert improving cash flow into profits, and in particular for cheap companies where they see a near-term catalyst that could drive a re-rating. This has led to over 50% of the portfolio being invested in producers with assets in development, including Ora Banda, with production expected to ramp up at its Sand King underground mine in Australia this year, and Calibre Mining, which is poised to commence production at its Valentine Lake mine in Canada in 2025. In 2024 they added to positions in New Gold and Eldorado based on anticipated de-risking catalysts expected in 2025. Keith and Rob think easing construction costs and a weaker currency support projects being delivered on time and under budget, and this has influenced the high weighting toward Australian stocks.

While tariffs have caused some consternation in certain sectors, Rob and Keith argue that by weakening the Mexican and Canadian currencies, they may benefit their precious metals producers. Mexico is the world's leading silver producer. Despite the currency issue, GPM's exposure to silver fell from 15.1% to 10.1%, with Rob and Keith concerned about the less friendly regulation of the previous Mexican president, which remain in place. While these policies may be changing, there is the potential for increased supply to weigh on the market.

Kepler View

Gold has had an exceptional run, with the metal breaking through all-time highs multiple times over 2024 and bursting through the $3,000 an ounce level in early 2025. It's prudent to be cautious with assets that have risen a lot quickly, but we think the outlook for gold remains strong. An end to the Ukraine war may see tensions between Russia and the West fall slightly, but from the emerging markets' perspective, the war has raised the prospect of the US and Europe confiscating dollar assets as a tool of politics. Meanwhile, the Trump administration views China as a rival and enemy and the feeling is mutual. We think central bank demand for gold is likely to remain strong, while retail investors in China and elsewhere should continue to be attracted to it as a savings vehicle.

Miners look extremely attractive with prices at these levels, particularly given the direction of travel on costs appears favourable. The sharp rally we have seen post GPM's year end could be the catch-up rally that has long been awaited. Performance has been lumpy from the indices and GPM in the past, but the rally we have seen so far is still behind the returns delivered in past up cycles. With falling interest rates likely to reduce interest costs and economic weakness implying lower input costs, we think gold miners have the potential to continue their excellent performance for some time.

GPM is an attractive way to play this sector in our view. It is notable that the world's two largest gold miners, Newmont and Barrick Gold, delivered negative share price returns last year, even as the mining indices rallied. We think this highlights the importance of an active approach, particularly in this market where understanding the prospects for free cash flow and profits are likely to be important. Rob and Keith are mining sector specialists, and the closed-ended structure allows them to invest across the sector in pursuit of the most attractive stocks, including into the small-caps. The use of gearing is an additional source of returns, which should be beneficial if the rally continues. Meanwhile, the 25.8% discount (as at 18/03/2025) looks anomalous, and could be an additional source of returns if investor attention turns to the sharp rally and improved outlook for the gold miners.

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