GOLD

MERIAN GOLD & SILVER

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The concept of a loss of buying power has become a more familiar one to Brits over the past couple of years, given the pound's decline in value against the dollar and euro since the Brexit vote. The price on that bottle of plonk from the south of France has edged up a pound or two since 2016, and holidays to the continent and the US have become more expensive.

When it comes to global investments, a loss of purchasing power in the world's most dominant currency, the US dollar, can have other consequences: in particular, it can push up the price of gold.

If investors think the real purchasing power of their cash will be eroded – perhaps due to higher inflation, or lower-than-expected interest rates – it's good for gold. If they believe their cash will buy more in real terms, gold will perform badly. Having gone sideways for several years, neither really gaining nor losing much value, we believe gold may be getting ready to shine once again.

- 30-50 holdings
- Combines mining equities with gold and silver bullion
- Macroeconomic environment determines ratio of bullion to equities
- High level of due diligence applied to every holding

As US and Eurozone central banks unwind their unprecedented monetary easing and asset purchases, there's a real risk of policy errors. This increases the possibility of stock markets falling, which could in turn drive real interest rates – and purchasing power – lower and trigger a rush to "safe-haven" assets such as gold. My outlook for the second half of 2018 is that gold priced in dollars and gold and silver mining equities could replicate the strong move seen in the first half of 2016, due to a change in momentum and sentiment in financial markets.

Global risks; gold rewards

Anything that could cause a move lower in the market's expectation of US real interest rates, the principal driver of the dollar-denominated gold price, would be a positive for the precious metal.

For example, a surge of inflation in the US that results in lower real interest rates (the rate of interest after allowing for inflation) is conceivable. This could come from a sustained increase in the oil price, perhaps due to curtailed supply from the Middle East. The impact of trade tariffs and restrictions imposed by the Trump administration is another risk factor.

Higher import prices would weigh on profit margins, family budgets and the economy. This slower growth could make the Federal Reserve (the US central bank) more cautious about rising interest rates higher.

Gold as a diversifier

We believe it makes sense to combine a holding in gold with sound investments in stocks, bonds, cash and other assets. The performance of the precious metal in previous market downturns, such as the 2008 financial crisis and 2002 dotcom collapse, corroborate this.

The make-up of the Merian Gold & Silver fund is currently around 18% bullion and more than 80% gold and silver mining equities. We invest only in miners operating in what are generally considered safe regions such as North America and Australia. Our top 10 holdings are little-changed over the last few quarters. We don't chase stocks that are trading at lower valuations, and we are ruthless about management teams.

By ruthless, we mean that the track record of management is a primary filter in our stock selection process. If a company's management does not have demonstrable track record of successful mine building or production, then we won't invest. After 15 years in the industry, we have a good sense about which executives can deliver.

We feel that a managed fund embracing both bullion and mining equities offers investors an optimal blend of underlying exposure for the medium to long term.

We see gold and silver as an important portfolio diversifier and a hedge against market changes and loss of buying power. It's something that every investor should think about. Especially after what's happened to the price of plonk.

Chelsea Risk Rating	10
Annual Management Charge	0.75%
Ongoing Charges Figure (OCF)	0.96%

THE CHELSEA VIEW

Ned and his team are highly experienced. We really like the due diligence they apply to all their holdings. This funds ability to invest in bullion as well as miners is another potential advantage which provides diversification and a source of liquidity.