

Golden Opportunity or Fool's Gold? Why we're staying out.

The past year has been remarkable for gold, with its price surging and South African gold miners delivering exceptional share price performance. These miners, highly leveraged to the gold price, now rank among the top ten best-performing shares on the JSE for the year. To put this in context, by the end of September, precious metals miners accounted for 24% of the JSE Capped Top 40—double their weighting at the start of the year. This was driven by a 46% increase in gold and a 77% rise in platinum prices.

Unpacking the flight to gold

How gold prices have moved relative to investor sentiment, bond yields and recessions



*Per troy ounce, 2025 constant value

Graphic: Ray Douglas, Alan Smith

Source: LSEG

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Source: *Financial Times*

This has had a marked effect on the relative investment results of our equity house-view model which has flowed through in varying degrees to the multi-asset strategies. It is understandable that there may be discomfort when our investment results do not align perfectly with current benchmarks, as has been the case so far in 2025.



Our investment objectives

It is worth pausing to reflect on our objectives. For clients with a Balanced strategy, our goal is to match or exceed inflation by 4% over rolling five-year periods. For Growth strategies, the target is inflation plus 5% over rolling seven-year periods. All strategies have delivered positive returns year-to-date, exceeding these inflation-plus objectives—even if they have lagged benchmarks in the short term. More importantly, over longer periods, our strategies have outperformed both benchmarks and inflation-plus objectives, thanks in part to exceptional outcomes in 2024 and 2023.

Rands	5 years annualised	2025 (ytd)	2024	2023
Balanced House-view	15.9%	11.0%	16.3%	12.7%
Balanced benchmark	15.2%	23.0%	13.8%	8.0%
Growth House-view	16.3%	11.0%	15.9%	14.4%
Growth benchmark	14.9%	27.7%	10.9%	7.6%

Narrow market

It is instructive to note how narrow the source of SA market returns have been: the FTSE/JSE All Share index has increased 31.7% thus far this year. Excluding the contribution of the precious metals miners, the ALSI would only have increased by only 11.5%, and further excluding Naspers/Prosus the index by 4.4%.

Reiterating our view on gold miners (and gold)

Our clients will be aware that we do not hold - and have never held - gold equities. This is a deliberate outcome of our long-term, well-considered investment philosophy, which applies stringent quality criteria to all opportunities. We favour companies with sustainable competitive advantages, diversified earnings, attractive economics, and management teams with proven capital allocation track records and the ability to redeploy capital at attractive returns. Over the long term, gold miners have not met most of these criteria.

This is not a dogmatic view, and we have revisited both the case for investing in gold miners and considered increasing our current gold ETF exposure several times this year.

We have run scenarios on a range of gold forecasts. Valuations suggest downside from here for listed gold mining companies. This excludes the likelihood of poor capital allocation at the top of the cycle as has typically occurred in past cycles.

The long-term track record of the SA gold miners suggests limited discipline in deploying capital effectively. Capital expenditure and costs tend to lag the price of physical gold, dividend payments have been inconsistent at best and there has been a tendency to make costly acquisitions at the peak of the cycle. Recent M&A activity in the sector, at a near all-time high gold price, points to history repeating itself. Historically the sector has generated low returns on invested capital and our analysis indicates that over the long-term, sector ROEs exceed 15% less than a quarter of the time. From an investment perspective the returns delivered by most of the SA gold shares over the past 20 years have lagged the broader market and the underlying metal.



Gold Exposure: A Disciplined Approach

We have regularly revisited the reasons we entered the gold ETF position in a number of years ago. At the time these included geopolitical uncertainty, rising inflation and fiscal risks and risks to the dollar's hegemony. These remain unchanged and we are comfortable with the current allocation which provides diversification and safe-haven properties.

Investment Errors: Omission vs. Commission

It is important to distinguish between errors of omission (missing an opportunity) and errors of commission (making a poor investment decision). While we have missed out on the recent rally in gold mining shares, we have remained true to our investment philosophy. Deploying capital into gold miners now would carry a high probability of capital loss, and we believe our discipline will be rewarded over time.

Conclusions

The Nedbank Private Wealth house-view model portfolios have produced returns in excess of their inflation-plus objectives year-to-date. For the prior two calendar years, the house-views well exceeded both benchmarks and inflation objectives. Importantly, over the last five years, the investment process has surpassed its objectives.

The outperformance of gold shares year to date and our lack of exposure has been a headwind to relative investment performance over the short term. We remain disciplined in our investment approach however and continue to apply our investment framework to finding high quality opportunities characterised by enduring competitive advantages, stable and predictable cashflows and management teams that have demonstrated the ability to consistently create value for shareholders. We believe that these qualities make for reliable long-term compounders.

While we do not view the quality of gold equities favourably, we do acknowledge the diversification benefits of gold exposure in a balanced investment portfolio. Gold has shown over the very long term to be an effective inflation hedge, a safe haven during times of extreme crises and a differentiated source of returns. It is for these reasons that we maintain exposure to gold via an exchange traded product in our House-view model portfolio. Our clients have benefitted from the performance of gold through this exposure.

ASSET CLASS	UW	NEUTRAL	OW	PREVIOUS	Latest actions
GLOBAL				NEUTRAL	Under review
SA EQUITIES				OW	Trim equities in June, August 2025
ALTERNATIVES				NEUTRAL	
SA PROPERTY				NEUTRAL	Decrease property March 2025
SA CREDIT/PREF SHARES				UW-NEUTRAL	
SA BONDS				OW	Under review
SA CASH				UW-NEUTRAL	Increase cash in June 2025



Looking forward

Portfolios are diversified and absolute performance, especially over the medium term, has held up well. We are assessing all information on merit for its impact on valuations and fundamentals. Opportunities and risks are both important. Portfolios are broadly balanced with a modest tilt to risk assets. We have been taking profits and reducing equity exposure on valuation grounds: increasing our cash holdings. We will be guided by valuations as we position or reposition portfolios, retaining our focus and discipline on philosophy and process.

Thank you for your continued trust. We remain committed to delivering long-term value and navigating market complexities with discipline and care.

Regards,

Jason Binneman
Executive: Investments

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