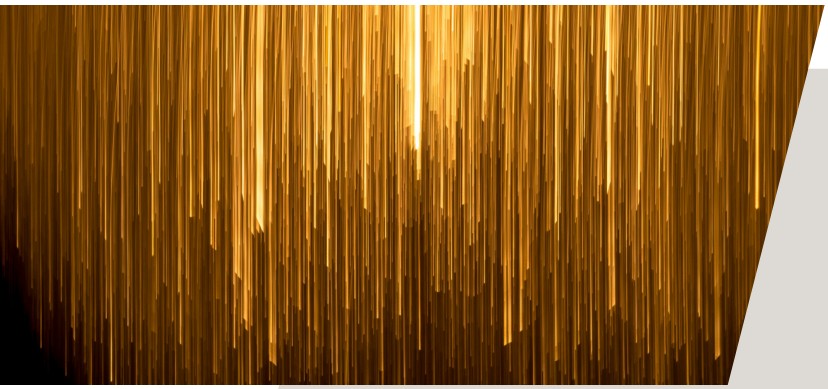
Rothschild & Co
Asset Management



Gold mining: another way to benefit from gold's rise

Charles-Edouard Bilbault
Global Equities Portfolio Manager

Against a backdrop of heightened geopolitical tensions, gold has a strong appeal for investors. Does this dynamic also benefit mining companies? Charles-Edouard Bilbault, portfolio manager of R-co Thematic Gold Mining, shares his outlook.

Gold exceeded $2,500 an ounce at the end of August, up 20% since the start of the year. What are the factors behind this price surge?

Charles-Edouard Bilbault: In the current geopolitical climate, marked by ongoing conflicts in Eastern Europe and the Middle East, gold is fully playing its role as a safe-haven asset. In addition, the massive acquisition of gold by certain central banks, notably the Chinese central bank, is significantly fueling this price rise: in order to reduce their dependence on the dollar and secure a safe-haven asset in the face of an uncertain geopolitical context, central banks have been acquiring more than 1,000 tons per year since 2022[1] (representing around 25% of global demand), more than double the historical average. However, despite the return of gold prices to all-time highs, the major mining companies are failing to attract investor interest (+38% for the price of gold since January 2023 versus +30% for the gold mining index)[2]. This underperformance is mainly due to the rising costs of energy, materials and labour, all of which are essential for metal extraction. These rising costs, driven by the inflationary environment, have eroded profitability, making these

companies less attractive to investors than direct exposure to physical gold.

In this context, what opportunities do you see?

C-E.B.: The consolidation of the sector offers interesting prospects. Mining exploration takes a long time: it can take up to fifteen years from the discovery of a deposit to the start of production. Given current valuations, it is often more profitable for a gold company to acquire a competitor than to develop a new mine. The industry is still highly fragmented, with many medium-sized companies owning a single asset. This opens the door to acquisitions in what are known as “mining districts”, i.e. neighboring mines which, by grouping together under a single flag, enable economies of scale and greater operational efficiency. It is highly likely that this trend towards concentration will continue and even intensify in the years to come. Finally, with production costs stabilizing after the post-Covid inflationary episode - when wages, energy and consumables prices rose sharply - mines offer the prospect of improved operating margins. The leverage effect of higher gold prices should contribute fully to this. With this acceleration in margins, part of the cash generated should be reallocated to shareholders.

How is the R-co Thematic Gold Mining fund positioned to take advantage of these trends?

C-E.B.: R-co Thematic Gold Mining is mainly invested in major gold mining companies. What sets this fund apart, however, is the diversification of its allocation. We also invest in diversified mining companies active in the extraction of materials associated with the energy transition, such as copper, nickel and lithium. These raw materials should benefit from strong growth in demand, as they are used in many key elements of the energy transition (solar panels, wind turbines, electric vehicles, etc.). Moreover, some of these metals behave “counter-cyclically” to gold, enabling us to cope with a wide variety of macroeconomic environments. Another differentiating feature of the fund is its ability to invest in exploration companies whose valuations will strengthen as they develop, from obtaining permits to entering production. This positioning enables us to take advantage of the consolidation trend in the sector and strategic investments by the major players. Lastly, R-co Thematic Gold Mining remains mainly invested in gold mines, offering significant exposure to gold price fluctuations. Indeed, R-co Thematic Gold Mining enables us to benefit more widely from operating leverage, i.e. the ability of mining companies to increase their margins in an environment of rising gold prices.

Weitere Infos zu den Fonds

R-co Gold Mining

Sehen Sie sich dieses Dokument auf unserer Website an

[1] Source : World Gold Council, Gold Demand Trends Full Year 2023.
[2] Source : Bloomberg, september 2024.

Recommended investment period: 5 years.

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Für weitere Informationen: www.am.eu.rothschildandco.com

(1) Quelle: Rothschild & Co Asset Management, 31/07/2026.

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