

IRJ INTERVIEWS

INVESTMENT MANAGEMENT INSIGHTS ON GOLD

IRJ Investigates the WAY Charteris Gold Fund with Mark Williams, investment manager at Charteris Treasury Portfolio Managers Ltd. of London, U.K.





About Williams

Mark graduated from Surrey University with a BA in 2005 and began his career in Investment Management with Forsyth Partners. He joined Charteris in November 2008 as a Junior Fund Manager assisting with the management of both individual private client portfolios as well as the management of the in-house Charteris funds.

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To find out more about Charteris Treasury Portfolio Managers Ltd. and to obtain the firm's latest factsheets, please visit <http://charteris.co.uk/>

To keep up to date with Charteris Treasury news and media, please visit http://twitter.com/charteris_

AT LONDON-HEADQUARTERED CHARTERIS Treasury Portfolio Managers Ltd., investment management courses through the veins of the family bloodline. Happily for investors and other interested parties, that means the company offers a wealth of expertise, valuable insights and a lofty track record across a range of sectors.

The asset management house, which specialises in discretionary portfolio management and fund performance, is well known for its Elite Charteris Premium Income Fund, City Financial Strategic Gilt Fund and most recent addition, the WAY Charteris Gold Fund.

Launched in Q1, 2010, the WAY Charteris Gold Fund ("the fund") has surpassed many an expectation. Within the first four months of its existence, the fund rocketed up the polls and rated the number one out of more than 3,200 mutual funds across the U.K. Now decorated with some of gold's most exciting players—think Goldcorp Inc. (TSX: G) Eldorado Gold Corp. (TSX: ELD) and Semafo (TSX: SMF) to name a few—this "long-only non-leveraged" fund is a veritable gateway for investors looking to partake in gold and blue chip gold miners, and a common source of performance commentary across international newswires.

During Mines&Money London, IRJ caught up with a member of the Charteris Treasury

fold, investment manager Mark Williams. Surrounded by multinational gold exhibitors, we spoke with Williams about what it takes for a gold group to command the attention of a top asset management house in today's hyper-risk conscious, changeable financial markets, and flicked through the mining houses proving interesting to him and his colleagues.

NUALA GALLAGHER ("NG"): Talk me through the WAY Charteris Gold Fund and how it invests (and where), please Mark.

MARK WILLIAMS ("MW"): The fund is a long-only non-leveraged fund and does not "short" or "hedge" gold or gold assets in any way. The fund is invested in predominately "Blue Chip" gold mining companies but has the flexibility to invest in smaller gold mining companies (under US\$2 billion) or have small exposure to ETF's or ETC's at the manager's discretion. Currently, we are fully invested into the gold mining companies because we believe the equities offer superior investment prospects than bullion itself. The market has seen a flood of money going into the ETF market attempting to get exposure to gold through bullion, but this could lead the investor being disadvantaged over the long-term. The equities can pay a dividend, companies can make discoveries through their exploration projects and

companies can also be subject to takeover activity, [whereas] just buying bullion does not expose you to these scenarios and (potentially very profitable) market moves. Kinross' takeover of Red Back Mining would be a classic example of this.

One big difference from most other gold fund's in the IMA Specialist sector is that we will not buy any South African domiciled companies. Our sources in the industry, and research that we partake in, show us that it is becoming more and more difficult to mine gold in South Africa combined with other political/social problems in that region of the world.

Given that viewpoint, we invest in Canadian, Australian, U.S. and U.K. gold mining companies. Our overweight position in Canadian domiciled companies has been the driving force behind the performance we have experienced.

NG: Perhaps with examples of your own stock held, you can lend some general perspective on the differentiating factors behind your fund's decision to take part in your investments, and how this may have developed since the Q1 2010 founding in line with market conditions.

MW: The company has a discretionary private client side to the business and the company has been a "bull" on gold for many years. Clients have had exposure to these gold companies for

a number of years now so when we launched the fund in Q1 2010, we had a solid foundation and knowledge as to which companies were going to consist of our core holdings.

As the fund has grown and others have noticed our performance, we have been introduced to a great range of companies, our watch list has become a lot more diverse and some management companies that we have been introduced to have made good impressions to the Charteris Investment Management team and backed their pitches up with the quality of their assets and market performance.

The quality of management, geographical location of their asset(s), thorough research, the proven reserves of gold, domicile of company and the "Beta" to a given move in the underlying commodity, i.e. cost of production relative to the current price, are all factors that are taken into consideration before any call is made on whether that stock can be included into the fund.

NG: A healthy portion of your portfolio is populated with Canadian gold groups—approximately 50-60 per cent according to recent comments made by your chairman. Perhaps you can tell me about the core attraction there.

MW: There are many reasons. Canada is very rich in commodity resources—not just gold but silver,

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copper, platinum and more. Canada is a very safe country both in terms of its politics and the way of life of its citizens. There is an expertise and attitude to mining across Canada that you may not find in other regions of the world. Canada is not only the second biggest country in the world but its government's pro-attitude towards the mining industry and encouragement to do business is very welcoming and appealing to investors across the globe, not just ourselves in London.

NG: I understand that you have Barrick and Goldcorp in the fund, but the general consensus is to spread out from the majors. Why does this appear to be different for these groups?

MW: We do own Barrick within the fund but the strategy that we have adopted for the fund is to seek out other gold equities with large capitalisations that offer better growth prospects for better diversification. Sometimes receiving the acclaim of the "world's largest gold producer" will not appeal to investors, purely because there is doubt as to how much further the company can grow.

Goldcorp is the exception for us when it comes to investing in one of the "big boys". It has been a wonderful performer for us in the fund and has offered a unique blend of growth, low costs, good balance sheet and high-grade assets that make the stock very appealing.

NG: You also have Agnico-Eagle, which has come under market lambaste of late. I understand that your team believe the downward share price resulting from recent news to be out of sync with real company value. Perhaps this is a reflection of a trigger-happy market sentiment at the moment?

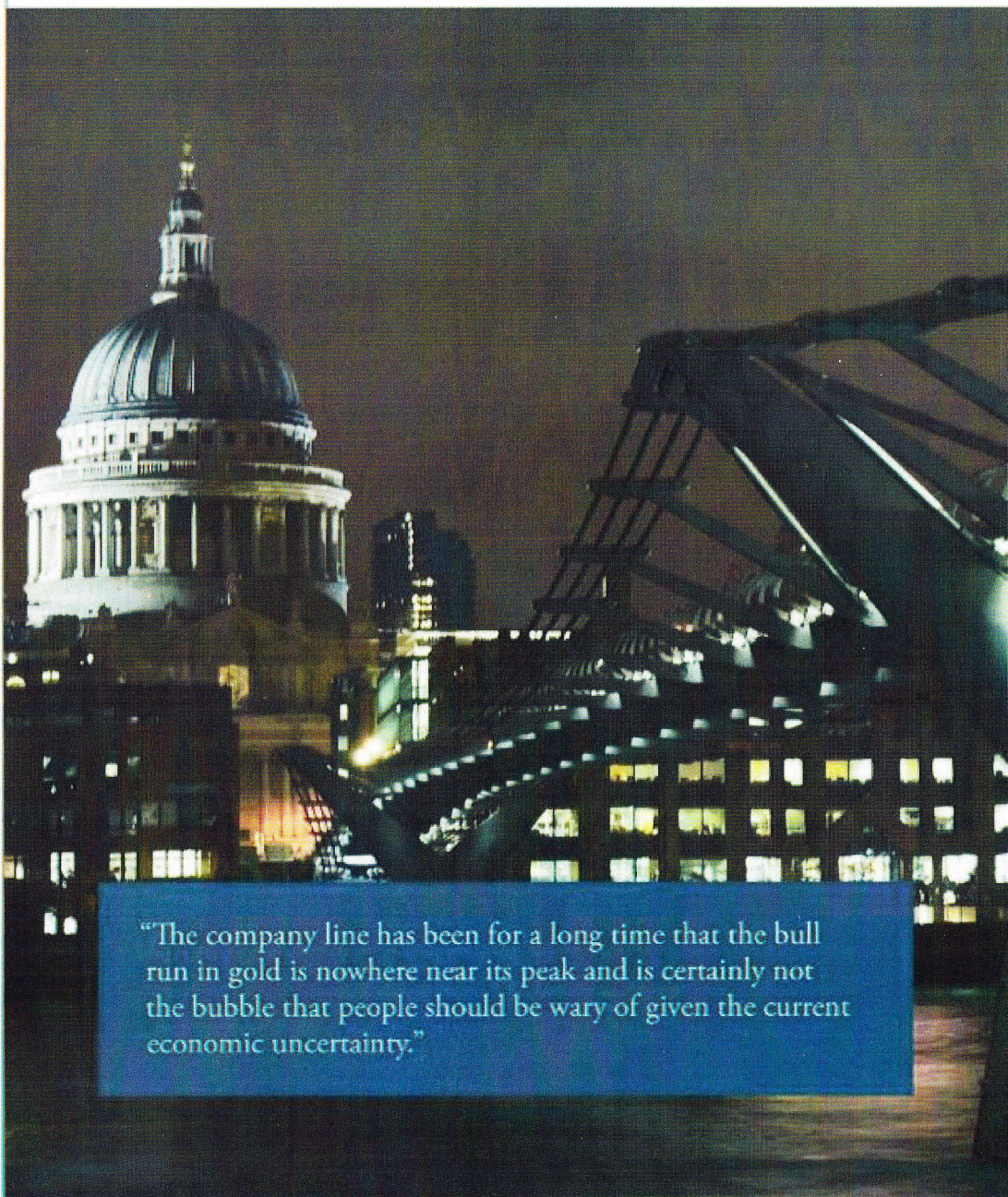
MW: The suspension to the Goldex mine's production due to remediation of water inflow was not welcome by any stretch of the imagination, but people must always remember that mines always carry a degree of risk—scenarios like this can happen from time to time. Given that the situation is still under investigation, we think the market has possibly over-reacted towards Agnico Eagle and [at] around \$40, it actually presents a good buying opportunity for late-comers to the gold sector/

market if they want a gold mining equity that has better prospects for "bouncebackability" than other stocks in the market.

NG: Since the fund's inception, we've seen a marked increase in gold consumption from nations including India and China, an abundance of polarised views on nearing the top of the gold bubble from analysts, and a worrying trend in gold repatriation/increased taxation/nationalism in a number of countries—and that's just a handful of factors. What is the company line on where gold appears to be going and how your fund is poised respectively?

MW: The company line has been for a long time that the bull run in gold is nowhere near its peak and is certainly not the bubble that people should be wary of given the current economic uncertainty. A lot of distrust has been created in the market with regard to the QE project on both sides of the pond, "traditional" wealth managers have been heading into bonds and gilts which are at or near their lowest yields since the Second World War and still look like a very crowded trade, whereas we don't think gold is anywhere near its peak.

We combine this thesis with research that is carried out on commodity cycles, their patterns of behaviour and the very real situation of gold mining companies having production costs of



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circa \$400-\$500 per ounce and selling gold that is unhedged at circa \$1,700 and above means that an awful lot of money is being generated by these companies and this cashflow is making the companies very appealing to an investor.

The fund is long only and with the shares being as cheap as they are relative to the metal, we hope to enjoy a very fruitful bull run for years to come.

NG: During the end of year mining conference flash, we've been looking for explorer/developers conducting 'exploration as business' and focused on expanding resource definition towards the correct point of sale/partnering for their shareholders. What are the company specific criteria that are grabbing your attention looking to the year ahead and beyond?

MW: As ever with markets, it is always moving and one must keep up with updates and monitor whether companies are meeting (or exceeding) their forecasts; whether their healthy balance sheets are being maintained and whether we will receive exciting news about fresh discoveries or takeover activity.

One aspect we will be keep a close eye on is whether some of these gold mining companies that we own will start to produce a dividend thanks to very high cashflow figures. We will

watch with interest whether gold stocks will grab the attention of the big institutional income funds and their firms, and almost force their hand into including gold companies into these income funds because their balance sheets and cashflows are impressive. They will prove difficult to ignore so that's definitely something we will monitor closely.

NG: Lastly, any comments for gold investors facing some uncertain coming months?

MW: It won't only be uncertain in the coming months for gold investors. In current climes, all investors across all sectors are worried, however, gold cannot be printed unlike certain currencies across the globe, gilts and t bills still look a crowded trade even at these historically low yield levels, uncertainty surrounds the property market and when that will bottom out.

However, looking at the research we have on cyclical analysis, company research data and quality of assets reports for when we go on mine visits, we are confident that in the long-term, investors' faith will be repaid handsomely in the gold market. **IRJ**