

FUNDS

Finding a gold mine in resources

By Andrei Postelnicu

LONDON: Warren Irwin is sticking with mining companies, even though his hedge fund, the best performer among its peers in 2006, is down 3.7 percent this year.

Gold mine investments brought Rosseau Limited Partnership a 122 percent return last year, the most among hedge funds that bet on mergers, liquidations and spinoffs, according to the most recent rankings from Hedge Fund Research. Irwin topped 240 other managers in the group, which had average returns of 15 percent in 2006.

Irwin, who is based in Toronto, buys stakes in mines before they have proven their reserves, in the hope that they will be sold. Last year, for example, he quadrupled his money when he sold his holdings in Virginia Gold Mines, a Quebec city exploration company, to GoldCorp, the second-largest Canadian producer after Barrick Gold, the world's largest.

"It's hard to turn our backs on the resources sector," said Irwin, who said he almost died in a helicopter crash while scouting for gold in Ecuador last year.

"It's extremely hard to find a drill rig in the world today because they're all working," he said. The odds against finding a new mineral discovery will remain substantial, he added.

Irwin, whose firm manages 200 million Canadian dollars, or \$172 million, in assets, said he did not worry much about the price of gold, down from about \$730 an ounce last May to around \$670 this week.

"New discoveries will pay off regardless of the price," he said.

Rosseau is up against investment

firms like RAB Special Situations, the flagship fund of RAB Capital, which is based in London. RAB returned nearly 50 percent in the year through January, according to data compiled by Bloomberg. Rosseau gained 100 percent in the same period.

Matthew Turner, an analyst at Virtual Metals Consulting in London, said that mining companies could become victims of their success.

"When prices are high, there's a boom in exploration, then prices decline and exploration slows," he said.

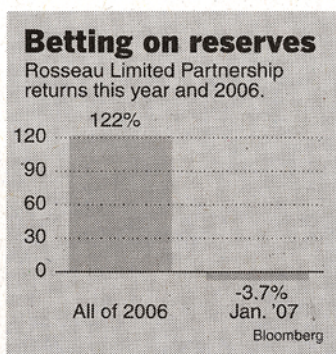
Irwin has traveled to 20 countries in South America, Africa and Asia in the past two years. His staff of seven employees spend a few months researching a company's chances of finding reserves as well as the strength of management before deciding whether to invest.

Mine operators that misrepresent their prospects pose a danger in Irwin's business, he said. In one of the most notorious cases, a company called Bre-X Minerals in Calgary, Alberta, soared to a market value of \$4 billion before declaring bankruptcy after claims of huge reserves in Indonesia were found to be a hoax.

"We reduce our risk by jumping on a plane and visiting these properties and doing the research on them," Irwin said. "We're lucky to be in Toronto, which is the center of the universe for mining finance."

Demand for gold will exceed supply for the next 5 to 10 years, said Jon Bergtheil, an analyst at J.P. Morgan Securities in London. "The need to replace gold reserves is dramatic."

Hedge funds like Rosseau — private pools of capital catering to investors



Bloomberg News
Gold mine stakes brought Warren Irwin's hedge fund a 122 percent return last year.

with at least \$1 million — aim to make money whether markets rise or fall. The average fund returned 13 percent last year, according to Hedge Fund Research in Chicago.

That trailed the 16 percent gain of the Standard & Poor's 500-stock index and the 21 percent rise, in U.S. dollars, of the MSCI world index.

The Rosseau returns were more than triple those of the second-best event-driven hedge fund in 2006, MMCAP Capital of the Cayman Islands, said Scott Esser of Hedge Fund Research.

Irwin said his fund's performance last year, its best ever, did not mean that he was married to precious-metals mining companies, which comprise about a third of his holdings. Another third is in resources like natural gas, oil and base metals, he said.

Rosseau bought Guyana Goldfields, a metals exploration company based in Toronto, and predicted that the company would be bought out in 2006. It was not, though the shares are up almost 180 percent from a year ago.

Rosseau also bought Pele Mountain Resources, also of Toronto, on predictions that it would yield diamonds. Instead, the company discovered uranium deposits, and the shares were up almost 300 percent from a year ago.

"I don't care whether we are operating in distressed securities, shorting common stocks, junk bonds or turnaround situations," Irwin wrote in his 2006 update. "I just like to be in areas where the risk-reward ratio is the most attractive."

Irwin usually keeps about 10 percent of Rosseau assets in cash. The fund now has about 25 percent in cash because it has sold investments and is funding new ones.

Irwin has bet on declining share prices, known as short-selling, which involves selling borrowed stock and trying to buy it back at a lower price. Shorting helped Rosseau return 33 percent in 2000, when technology stocks plunged.

For example, after profiting from a rally in 1999 in Wi-Lan, based in Ottawa, he made money the following year by shorting the stock.

The fund's second-best year was 1999, when it returned 65 percent by investing in Wi-Lan and Cell-Loc, which is based in Calgary.

Rosseau has not always made money. In 2002, it lost 18 percent after financial fraud came to light at one investment. Irwin declined to name the company, saying the case was not public.

Rosseau lost 5 percent in 2004 because the fund was holding mainly mining stocks and missed out on a rally in oil and natural gas companies, as well as steel maker, Irwin said.

The energy index of the S&P 500 rose 31.5 percent that year, while Exxon Mobil shares rose 28 percent in the period.

The S&P 500 index rose 17 percent between Jan. 1, 1999, and Jan. 31 this year, while Rosseau returned 677 percent in that period, Irwin said.

RAB Special Situations has returned more than 800 percent since it started in August 2003, while Rosseau returned 262 percent in the same period, according to Bloomberg data.

Irwin, a certified financial analyst who got his master's degree in business administration from the University of Western Ontario in 1991, missed some opportunities because of the time it took to research a mining investment. Irwin told investors in his 2006 update that he was disappointed not to discover one African mine last year. He would not disclose further details.

Like most hedge funds, Rosseau charges investors a 2 percent management fee to look after their money and keeps 20 percent of any money it makes as a so-called incentive fee.

As for the next special situation Rosseau will invest in, Irwin offers few specifics. "Whatever it is, it will have something to do with China's economy," he said.