

# Bringing home the gold

*The RBC fund has outshone other precious metals funds*

BY JADE HEMEON

**CHRIS BEER HAS FOLLOWED a path through the bush of Newfoundland and Labrador as a prospecting geologist all the way to the financial towers of downtown Toronto, where the sizzling returns of RBC Global Precious Metals Fund, which he co-manages, have led to his selection as *Investment Executive's* 2010 Mutual Fund Manager of the Year.**

"Having a feel for what has to happen in the field is useful," says Beer, vice president and senior portfolio manager with Toronto-based **RBC Global Asset Management**. "The techniques and tools have certainly improved from the time I was walking around the bush with a compass. But I can see when a team is passionate about a discovery. And often our best meetings are when a mining company brings in a geologist from the field."

The *IE* award is based on RBC Global Precious Metal Fund's superior performance over the past decade — and Beer has been at the helm of the fund since 2003. Since 2007, Beer has co-managed the fund with Brahm Spilfogel, vice president and senior portfolio manager with RBCGAM. The pair also co-manage RBC Global

Resource Fund. In addition, Beer co-manages RBC Global Energy Fund with Cory Jacobson.

Beer has been with RBCGAM since 2000 and has been researching natural resources companies since 1993. He graduated from Memorial University of Newfoundland with a degree in geology, then spent four years as a field geologist; then, after a stint in the Air Force, he earned an MBA in finance from the University of Toronto.

According to **Morningstar Canada**, RBC Global Precious Metals Fund had an average annual return of 33.3% for the 10 years ended Oct. 31, beating the median return of 23.7% in the precious metals equity fund category as well as the 17.1% return shown by the benchmark S&P/TSX global gold total return index. The RBC fund not only outdistanced every fund in its category, it had the best 10-year return among the more than 6,000 funds tracked by Morningstar Canada. The RBC fund has consistently been a top-quartile performer during periods ranging from the past six months to 15 years.

Beer's performance has unquestionably been helped by the rising price of gold bullion, which has been setting records at almost US\$1,400 an ounce after bottoming at US\$256 in 2001. However, the RBC fund has outshone competing precious metals mutual funds as well as the benchmark index because of Beer's stock selection.

Beer says the biggest factor influencing rising share prices in precious metals companies is the



growth in reserves and production — and that has more of an effect on company values than on bullion prices. He has seen the success of one drill hole add almost \$1 billion to the market capitalization of a company.

"The company that is most attractive is one that grows its bottom line," Beer says, "which means that even if bullion prices are flat,

the company is able to grow production or lower costs."

On a calendar-year basis, the RBC fund has experienced negative performance in only two of the past 10 years: 2004, when it dropped by 17%; and 2008, the year of the global financial meltdown, when the fund dropped by 26%. And despite the fact that gold stocks can be extremely volatile, Morningstar

Canada ranks the RBC fund's volatility as "medium/low" based on a three-year time horizon.

Beer minimizes volatility in the RBC fund by holding shares in companies that are at different stages in the mine-development cycle: exploration, early-stage property development, building of the mine and production.

"It's a volatile area," Beer says,

“and we manage risk and liquidity issues by diversifying across the mining cycle as well as by market capitalization of companies.”

Typically, the RBC fund's portfolio is divided equally among small-, medium- and large-cap stocks. The weighting in small- and mid-cap stocks is heavier than that of the benchmark index, which is tilted toward large-cap stocks. The RBC fund has recently benefited from holdings in such small firms as Red Back Mining Inc., Andean Resources Ltd. and Avoca Resources Ltd. because of takeovers at premium prices.

“Companies in the exploration stage often have the biggest gains,” Beer says. “It's early days, and you're

speculating on the unknown. But companies in the development stage can also be rewarding, as there is a higher market cap, more liquidity and management skills are more evident.”

The RBC fund's two largest holdings are Goldcorp Inc. and Barrick Gold Corp. Even established companies can increase their growth prospects through acquisitions, Beer says. Increased gold reserves, combined with higher bullion prices, could mean rising dividends at some of the more established companies, he adds, and that could boost stock prices.

Drilling success in a particular area “encourages every Tom, Dick and Harry to acquire land

and start drilling at the most recent hot spot,” says Beer, which can make it difficult to weed out the good names. “We like to invest with a management team that we either know or that has a successful past. That tends to alleviate some of the issues.”

Most of the time, Beer says, he is familiar with at least some members of a company's management team. If not, Beer's many years in the business have led to a network of contacts that can provide a “quality opinion” on management.

Along with geological and management risks, mining companies face social and environmental issues in getting a mine to production, Beer adds: “Many compan-

ies stub their toes by not working properly with the community. When you bring a mine into production, you need to have the locals onside. A non-experienced team can screw up and make it hard for anyone to develop the mine once community relations are strained.”

Excitement surrounding a discovery can cause shares in precious metals companies to rise rapidly in value, Beer says, and it can be a challenge to determine when they are overvalued. Ideally, he likes to hold a promising company all the way to the production stage, which can take two to seven years. The value can continue to increase as the known size and quality of the

ore body improves with development. And a small company with a good discovery can benefit from a takeover. For example, the RBC fund invested in Andean Resources as it grew to a market cap of \$200 million from \$50 million; that firm was later taken over by Goldcorp for \$3.6 billion.

“It's one thing to recognize a good deposit, and another to recognize if the stock still has value,” Beer says. “The stock may have risen substantially; but if the deposit continues to improve, there can still be upside potential.” On the other hand, exploration and development is a risky game, with challenges ranging from financing to mine construction. **IE**

REPRINTED WITH PERMISSION FROM INVESTMENT EXECUTIVE