



September 10, 2014

My Gut Feel Is That We Are Bouncing Along The Bottom Now, Says David Hutchins Of Global Resources Investment Trust

By Alastair Ford



"We've been in a bear market for small caps for some time now", says David Hutchins of Global Resources Investment Trust.

"They are under-owned, under-loved, and under-researched. How long it stays that way is anyone's guess. But we just thought the timing was pretty good, although you can never get it absolutely right. My gut feel tells me that we are bouncing along the bottom now."

David Hutchins

With that in mind, David, and long-time collaborator Kjeld Thygesen, launched GRIT back in March. The markets have not improved significantly in the short time that's elapsed since, as the performance of GRIT's shares testifies only too well – down from 100p on the first day of dealings to 29p now.

But it may not be long now.

"All the bell-ringing moments are here", says David. "BHP Billiton's divesting its assets. The majority of specialist funds have been closing over the past couple of years."

So the clear-out is nearly complete. Evidence for this can be found, says David, in the way that the market is now reacting to news. "Results are being rewarded", he says.

When the market is overly bullish it will trade up even on a minimum of newsflow. And when it's overly bearish, even the most positive of announcements will be treated as a liquidity event and an excuse to push through more sell orders.

Right now David perceives a kind of discerning equilibrium in the markets. But what happens next remains to be seen. Will private equity stage a long-mooted charge into the space?

David's not so sure. "Private equity's much more successful in the oil and gas industry", he says. Sure, the likes of Denham Capital and Pallinghurst are knocking around, but although Denham's done a few deals, Pallinghurst hasn't exactly rocked anyone's world, dabbling in emeralds, Faberge eggs and manganese. And that's just the tip of the iceberg. There's Mick Davis's X2 with its multi-billion dollar war chest. And others too.

"There are all these pools of private equity that haven't done anything yet", says David. "It's a question of why. I would have thought there would have been opportunities for private equity to get involved. I think what Mick will buy first will be a private asset. But actually some of these private equity groups say they've raised money, but actually they're just commitments. For these guys to get drawdown what they put up has to be incredibly robust. And mining companies are not natural bedfellows for private equity because of the pricing volatility."

So could Mick Davis bid for Anglo American, now that Mark Cutifani has apparently hoisted the for sale sign, and Mick's old sparring partner Ivan Glasenberg has apparently spurned the opportunity? That's possible, says David. But it would be quite hard to do.

"Ivan Glasenberg is the smartest man in the room", says David. "He floated his company at the top of the market and the only reason he did that was to buy Xstrata. And he got it basically on his terms." Glasenberg's decision to avoid iron ore looks to be paying off currently too.

Meanwhile, at Rio, a decade of poor decision making is only now being undone. "Rio was the one that got it all wrong all through the cycle", says David. "Sam Walsh has done a good job of stripping that back. But there's no way he can be running Rio in ten years' time."

That points to a key issue that the larger miners are now facing. Those that ran the majors during the boom years are all now gone, and have been replaced by wiser, older heads. All to the good, except that those wise old heads will themselves all be retiring in a matter of years, forcing another changing of the guard at the top. What the new crop will then do is very much open to question.

For the time being, though, a renewed focus on exploration looks unlikely. That means that opportunities for junior miners will return as the majors eventually revert to established practise of replenishing reserves and resources via acquisition.

Accordingly, David and Kjeld have filled the GRIT portfolio with 40 or so junior companies across a broad spectrum of commodities and jurisdictions, with around 24 per cent in production, and the rest at various stages in the exploration and development cycle.

"The majority are listed in Canada", says David. "They were the most desperate. The Canadian market suffered the most, they are the ones who got disillusioned quicker. But we know most of the companies already, and we're now trying to see if we can create value with our leverage. Difficult markets make better talkers."

Among the more notable companies in the GRIT portfolio are Merrex Gold, which has done well with exploration in West Africa not far away from IAMGOLD. The long game centres around a possible takeout. But in the medium term, Merrex has been delivering what David calls "spectacular" drill results.

Others in the portfolio include Arakan, Alhambra, Saturn, and the bauxite company Anglo African, which was covered [here on Minesite](#) earlier this year.

"Most of what we do is stock specific", says David. "But one thing we didn't want to get involved in is iron ore. It's just a mug's game." So on this at least, GRIT and Ivan Glasenberg are singing the same tune.

But what's the longer term plan as far as GRIT is concerned? "There'll be a continuation vote in five years", says David. "It's very dependent on what the market's doing at the time. If the market's not doing much we'd probably look at investing in existing deals or new deals. But if prices have gone crazy we wouldn't be buying. We'd dividend it out."

To start at the bottom and sell at the top is every investor's ideal. Whether David can achieve that this time round with GRIT remains to be seen. But it'll be interesting to watch.