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Trust me, I'm a fund manager

By Richard Wachman
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In his waters, fund manager Sam Hutchins feels the time is right to spend £39 million investing in over 40 listed juniors, acquiring up to 20% apiece, with the idea of making a pile for those with an appetite for risk.

Probably, one shouldn't dismiss Hutchins as akin to a second hand car salesman who should be issued with a restraining order to prevent him from marketing his wares to the elderly, the young, the weak and the gullible.

And that is because Hutchins, who kicked off his career with the Melbourne Stock Exchange in 1979, has spun the wheel before, and won.

He was among a small group of money men involved in the listing of the Resources Investment Trust in January 2002 when the shares were issued at 100p and achieved an all-time net asset value of 290.59p six years later, encouraging shareholders to adopt a resolution to voluntarily wind up the company after seeing the value of their original cash injection almost triple.

Now Hutchins, a leading light at RDP Fund Management which is based in London's fashionable Mayfair, is at it again.

RDP has been appointed fund manager to the newly-launched Global Resources Investment Trust plc, or Grit, which was listed on the London Stock Exchange on March 7. It was Hutchins and his small team that spent the last 12 months identifying 41 listed juniors deemed worthy of investment. In total, they checked out 150, across all sectors except iron ore, viewed as too "capital intensive." Once again, as with RIP, the entry price was £1/share.

Hutchins accepts what he is doing is risky, but so is the potential for massive returns.

"A small miner can be turned round reasonably quickly, it's much slower for a supertanker like BHP. The junior and mid-tier companies only really get into significant trouble if they borrow too much money, or go for some fancy hedging strategy.

"Junior exploration companies can survive on the smell of an oily rag and can wait until the market turns again. They just don't go bust. They just move down and do nothing , sometimes for years."

Certainly, Hutchins pedigree looks good. He headed the international desk at M&G Investment Management from 1995, where he was concurrently responsible for M&G's investments in the precious metals and commodities sector globally.

He's been around the mining space for about 30 years. Now is the time to strike, he says.

"The market could bump along the bottom for another six to 12 months , but when it does turn, it will turn quite dramatically, because it's a cyclical business, always has been and always will. If you are not there on day one, you can miss out on the first 15%."

But can Hutchins spot the duds?

"In terms of trying to pick out a scam, it's about believability and achievability. Have the people proposing to build mine in the middle of nowhere, ever done it before? Most times, no. Have the directors in their smart suits and Rolex watches ever got their hands dirty? In a lot of cases, no."

But what about being able to identify those companies that are worthy of a punt. Hutchins mentions the three Ps, people, project and price. Those are the essentials and they have to stack up.

"People are absolutely integral in the running of small companies You need to ask whether a developer has done it before, brought a development to production , on budget and on time."

Projects are equally important. "Without a project there is nothing there. We don't get hung up on geography, because the geology is where the geography is. The market, nine times out of 10, will look after the discount with regard to where it is. Our more technical people (in the background) look at the feasibility studies."

Then there is pricing. That means looking at valuations in relation to a peer group. "How does it compare with similar projects in the same country? Are you buying something that is cheap or really expensive?"

Reinforcing Hutchins' confidence is his feeling that this could be 2002 all over again. Then as now, mining was an unloved sector, management at the all the major mining houses had changed, technology was the flavour of the month, just like it is today. And then there's gold, which he likes because it's relatively easy to mine and still "tremendously popular".

"The price of gold is at or almost around the cost of production. Commodity prices don't stay at the cost of production for very long, from my experience."

Whether Hutchins can be lucky for a second time remains to be seen