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THE FUNDIE ENJOYING HIS OWN GOLD RUSH

Luke Housego *Reporter*

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FINANCIAL REVIEW

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The fundie enjoying his own gold rush

Luke Housego
Reporter

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"I'm the son of a geologist and had been doing field work with my old man since I was probably 12 years old, so it's definitely in my blood," he says.

Like his father, Forwood qualified and worked as a geologist early in his career, fitting legal training and an articled clerkship in along the way.

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John Forwood's time as a geologist early in his career included stints in Indonesia and Tanzania. **Eamon Gallagher.**

Like his father, Forwood qualified and worked as a geologist early in his career, fitting legal training and an articled clerkship in along the way.

As a geologist, he worked for a series of mining companies that saw him spend time in Tanzania, Indonesia and the Northern Territory. "And then I joined Rand Merchant Bank out of South Africa and that's where I really cut my teeth in funds management," he says.

Forwood spent 17 years working for the investment bank, including as manager of RMD's Telluride Fund, an internal asset manager that invested in junior mining companies. That laid the groundwork for Forwood to take up the chief investment officer post at Lowell Resources Funds Management, a Melbourne-based investor in exploration and development mining ventures.

The amount of money going into gold equities – and you're talking mid-tiers, juniors and explorers ... You'd almost say it's gone bananas.

In the 2020 financial year, units in the fund surged 134 per cent thanks in large part to a weighting towards the booming gold sector. "We've had some good wins previously, particularly in the battery metal space, lithium in particular," he says. "And we've done well out of an investment in the copper-lead-zinc space in the Balkans.

"But since February, it's been gold exposure, mainly in Australia, but also one particular project in West Africa.". A new gold rush has followed the extended rally in prices for the precious metal, which surged from about $US1420 this time last year to top more than $US1815 last week.

And Forwood expects gold prices to continue to move higher over the next 12 months, which explains why the fund's 56 investments are 58 per cent weighted to gold.

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Boom to bust

The surge in capital pouring into gold comes after a period of consolidation for institutional investors in the junior mining space.

"We've had a real capital drought for probably six to eight years," Forwood says. "General institutional money dried up for the junior resources space in particular – they were putting it into cannabis, or fintech or something like that.

"And of the very few funds that were specialising in junior resources, some of them have shut up shop." The consequence was less largesse and more conservative use of cash.

"There's [none of] this what we call "real estating" in the industry, where you just peg as much ground as you possibly can because as many acres as you've got is going to have some sort of value you're defending.

"But when the cash is tight, then you're just pared back to the bare minimum and you just hold on to your best project." However, it wasn't too long ago that excess capital was a problem throughout the mining industry, Forwood says.

Rising tide

"At the big end of town, I think what happened during the 2000s up until the GFC was ... you had the resources boom, iron ore boomed, gold boomed.

"And a lot of capital got wasted and got thrown at projects that probably should have never been funded. BHP and Rio were guilty of developing projects that torched a lot of capital."

I wouldn't say we've got a free swinging bat at a lot of these opportunities but we have in the past really been able to pick and choose.

Forwood says an example of restraint in deploying capital during the period was Sir Michael "Mick" Davis, a veteran of the global mining world and one of the industry's most revered dealmakers.

The former boss of Xstrata and central figure in the BHP and Billiton "reverse takeover" went on to launch a fund called X2, raising billions of dollars from investors looking to cash in on the mining boom. "He didn't find a deal that was going to meet his required rates of return and he apparently returned all that money," Forwood says.

After the number of funds in the junior resources space declined after the GFC, Lowell Resources Fund was among the few remaining.

"I wouldn't say we've got a free swinging bat at a lot of these opportunities but we have in the past really been able to pick and choose," Forwood says. But it also means there are less projects in the pipeline, which may be needed to replace ageing mines and absorb any growth in demand.

The structural shortage in forecasted demand is most visible in copper, Forwood says. "[For] all the big guys and the mid-tiers as well, pretty much, copper's the top of their list. "We're probably in the same boat as a few others. We're trying to increase our copper exposure."

Lowell Resources is in the process of building a stake in Zenith Minerals in the hope of leveraging a copper find. The company's exploration operations are in the Drummond Basin in Queensland. "That's definitely a very fertile area. But I think also the Mount Isa block in terms of copper is extremely well endowed."

Fifteen bagger

One of the portfolio companies the fund has seen through to operating mine is Gold Road Resources. The company entered the ranks of mid-tier gold producers when its Gruyere mine was officially opened in December.

Lowell sold its holding in Gold Road Resources at seven times the value of the funds invested. But the fund's top performer this year has been De Grey Mining, an exploration company that recently struck gold. "They've made a massive new gold discovery in the Pilbara," Forwood says.

"It's an area which traditionally they thought as not having the big gold deposits like the area around Kalgoorlie. But they had pegged a huge tract of ground – I think it's over 100 kilometres long. "And then in December, they announced some really interesting crude dry drill intersections in the market. Maybe because it was close to Christmas, the market didn't take any notice.

At the time the explorer's shares were trading at 6¢, which was also the price Lowell Resources paid for the stock. The company's shares closed at $1 at the start of the month but have since pulled back to 80¢.

"It's very much a bottom-up approach and you're looking at the merits of the geology," Forwood says.

"Trying to sort out what could become a big discovery from what will always be just an interesting bit of geology, that's fundamental."

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Lowell Resources Funds Management is the investment manager of the ASX-listed investment trust Lowell Resources Fund (ASX: LRT). Our website contains regular videos on content such as this and you can subscribe for regular article and video updates www.lrfm.com.au

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