

## Gold miners need to woo investors to Rival ETF's

By Marina Kolesnikova, - February 15<sup>th</sup> 2011

Gold-mining companies will have to improve their performance and boost their dividends to compete with exchange-traded funds for investor interest, said BlackRockInc, the world's largest money manager.

"Gold companies have to change their mentality, stop being lazy, stop resting on their laurels and realize they have to perform," said Catherine Raw, who co-manages BlackRock's \$9.2billion World Gold Fund and the company's flagship \$17 billion World Mining Fund with Evy Hambro. "They have to provide the growth, provide the cost control in order to outperform the ETFs because people won't just buy them by default anymore."

Gold held in exchange-traded products stood at 2,016.98 metric tons on Feb. 15, according to data compiled by Bloomberg from 10 providers. Holdings reached a record 2,114.6 tons in December. The precious metal, often viewed as a safe haven and a currency proxy, rallied 30 percent last year on concern the economic recovery would falter. It's down 2.9 percent this year.

"With ETFs you can get essentially pure exposure to gold without any other risks associated with owning a mining company," such as political, geological and management risks, Raw said in an interview in Geneva on Feb. 15. "You have to be compensated for those risks if you are going to own gold equity."

BlackRock's equity funds represent 2.5 percent to 3 percent of the global market capitalization of gold, silver, platinum and palladium miners, according to Raw. The World Gold Fund's biggest holdings include Newcrest Mining Ltd., Kinross Gold Corp. and Fresnillo Plc.

Newmont, Fronteer

Gold mining companies fearing investors may exit are already moving to reinvest cash in new production rather than issue equity, Raw said. Newmont Mining Corp., the largest U.S. gold producer, said Feb. 3 it agreed to buy Vancouver-based Fronteer Gold Inc. for C\$2 billion (\$2 billion) in cash, including net debt, to gain exploration and development projects in Nevada. "There's been a real change in the way the gold companies invest their cash flows," Raw said. "That's not something that would have happened five years ago."

Another change is visible in dividend policies, as shareholders press companies to differentiate themselves from ETFs. The gold industry didn't pay dividends until about two years ago, Raw said.

Base Metals

Base-metal ETFs are unlikely to have as broad a reach as the gold funds, Raw said. ETF Securities Ltd. started the first exchange-traded products in physical copper, nickel and tin in December. JPMorgan Chase & Co. and BlackRock have said they may also open such funds.

"There isn't the same logic behind owning copper ETF," Raw said. Gold ETFs are a safe-haven asset, while people look at industrial metals as linked to the global growth story, she said. "I just don't see the same level of investment demand that we've seen for gold."

Higher storage costs will also probably deter investors from ETFs backed by industrial metals, she said, adding that the tin fund "might be interesting, because there are very few tin mining companies, and what you have seen is that there has been a real squeeze in the tin market."