

Commodity Watch Radio – 20 February 2007

Andrew Ferguson, New City Investment Managers

You're listening to Commodity Watch Radio with Dominic Frisby at Minesite.com.

Dominic Andrew Ferguson is an investment manager for New City Investment Managers. His trust, City Natural Resources, was the best performing investment trust in the UK in 2006 and fund, Geiger Counter, up 94 percent since its launch date last July specialises in uranium companies and is one of the only uranium funds in the world. Andrew, welcome to Commodity Watch radio.

Andrew Good morning.

Dominic Now, why don't you tell us about Geiger Counter? How many companies do you own?

Andrew Well it's a changing feast, I suppose we're around the 45 to 50 individual investments in the trust at the moment.

Dominic And do you trade in and out, or do you tend to buy and hold?

Andrew A bit of both really. We've got one or two core positions, which tend to be buy and hold where the storey is good, the storey's developing, the company's developing or, you know, the larger share holdings are producing cash so you tend to buy and hold. Some of the smaller companies you are nimble, you're in and out, particularly at the moment with the way the market's behaving, you're seeing valuations being pushed up to potentially beyond what we might deem as acceptable and half the trick the job that we do here is not falling in love with stock and taking a profit.

Dominic Do you own Cameco?

Andrew No.

Dominic Did you ever buy it?

Andrew Yep, we did; we sold Cameco on the Monday after they put their announcement out, within the first 5 minutes of that, the market opening post-announcement on the flooding of Cigar Lake the market was asleep, nobody actually really understood for 48 hours the severity of the problems at Cameco.

Dominic And am I right in saying last week they said 7 years now?

Andrew Yea, the market still doesn't give it. I think that Cameco are playing a big company game with the market, they're not telling people too much really about what's going on, about the remediation work. We were meant to know in January, we were meant to know in February, apparently we might find out in March. I don't know. There's going to be a point where Cameco will disappoint, the market will overreact and they will sell it down and that, I think, will be the point that you want to get

involved. It is still the largest uranium producer in the world and they do probably have the largest asset base of uranium in the world and so there is a point that you will have to own this company.

Dominic If their Cigar Lake is so badly damaged are they going to be looking to start acquiring some other assets, maybe some explorers with good properties?

Andrew Well, they actually, Cameco have a stable, a portfolio of undeveloped but know uranium assets, predominantly in the Athabasca Basin, but on a global basis. I would guess their board are fast-tracking various other projects within the stable at the moment, and then I would say as a different string to their bow they'll be looking around at some of the smaller companies, some of the developing explorers who've probably got good assets but probably don't have the skills to take them forward. I wouldn't be surprised if they do become acquisitive.

Dominic And that the market hasn't reacted to the Cameco situation, does that suggest there's a lot of speculative, shall we say, in comprehending money in the uranium market at the moment?

Robert They did react. The stock was about \$44 the day they made their announcement last year. It took a while but stock drifted all the way down to \$36 and on the back of the uranium metal, the physical metal's rise in price, the stock's gone back up to around the 43 where we are today I think. And it's purely, I think, because you've got a higher metal price which will potentially off-set some of the problems of Cigar Lake bearing in mind they are the largest producer in the world, but also there are no other real names for the professional investor to go and buy, of any size. I mean you know we've just heard an announcement this week of SRX and UrAsia getting together and merging, and that forms a \$5 billion company.

Dominic Do you own both of those?

Andrew I do, which I think is great because you need to make bigger companies for the world at large whether it be the hedge funds to trade or the pension funds to get involved. They call a microcap anything with a billion dollar market cap or less, and they won't invest in them. So, to push them up the scale is important and also, I think dare I say it, things like production and cash flow is hugely important to these people, which is quite right too. So, the reason Cameco's stayed reasonably healthy at the moment is because there are no other companies for people to buy in my opinion.

Dominic SXR seem to be acting very dynamically, they seem to be acquiring or looking or suggesting that they're going to acquire properties all over the shop?

Andrew Well, somebody has to; there's first mover advantage to be played for here. SXR have come from nowhere, they know they've got to diversify their asset base away from South Africa which they're doing, they've got Honeymoon in Australia; they've got their strategy with the US; people who suggested that this merger is not right because of the Kazak risk – I put South Africa in the same basket as Kazakhstan as far as risk, I'd put it right up there; so as far as I'm concerned, I don't think, I'm not unduly worried by it, in actual fact it's a very clever thing.

- Dominic** Do you own a lot of UK listed uranium stocks or do you prefer the American and Canadian?
- Andrew** We've got one or two. A tiny little thing called Vane Minerals, which ...
- Dominic** They've interviewed on this show actually.
- Andrew** Ok, well Vane we've supported by way of convertible and straight equity; they're misunderstood. They're perceived to be a silver company, which they are, they've produce silver and gold from their mine in Mexico, which is great, but they have cash flow. They don't necessarily need to keep coming to the market for money like other junior companies, but they've got these breccia pipes in America in the mid west which have previous history – they've been mined in the past, the geology is relatively simple and I actually think they've got quite a few million pounds in the ground. So you know we've got involved with them, the other little one that we own is called Uranium Resources, on Aim. They have a 50 percent joint venture with a group in Australia called Western Metals; it's the wrong price in the UK, in Australia, the Australian 50 percent would equate to about an 8p share price which of course the Aim market is not sophisticated enough and the people involved in it don't generally understand the nuances of joint ventures I don't think. But apart from those two, we tend to stay well clear of it liquidity being my big bug bear.
- Dominic** And spreads!
- Andrew** Spreads, wider than a mile. You can drive butter through most of them. It's unfortunate because the UK could have steadied the march but I'm afraid the Canadians and the Australians with their order driven systems, are very much in control of this market.
- Dominic** I find it a great, I invest quite a bit of my own money and it's just very hard to earn on Aim because of those spreads; you end up putting your money into Canadian dollars and Aussie dollars and then you face the currency risk as well as everything else.
- Andrew** Which has not been insignificant this year alone.
- Dominic** Well Canadian's well down isn't it?
- Andrew** Yes, it's gone from nearly, it's gone from 2 to, where we are today, 2.3 something like that. It's not useful when you're running a big fund let alone when you're talking about your own money.
- Dominic** How much money do you manage?
- Andrew** As a group, Richard and I look after about £230 million sterling.
- Dominic** That's the entire New City Investment Managers fund?
- Andrew** Yes.
- Dominic** What about Geiger Counter's?

- Andrew** Geiger's is today roughly about £55 / £56 million sterling.
- Dominic** And if we want to buy Geiger Counter, where do we, what's your ticker symbol, where do we look?
- Andrew** Geiger Counter is primarily listed on the Channel Islands stock exchange which is a regulated exchange. It has a secondary quote here in London, ticker code is GCL, and trades on the international board of the London stock exchange. Any stockbroker can buy it.
- Dominic** I see, and do you have a website?
- Andrew** Yes, we do. It's all on the New City Investment Managers website which is www.ncim.co.uk and we keep that up to date, we put fact sheets up for all the trusts that we manage, just a bit of market commentary and the top holdings of each trust.
- Dominic** And that your business is basically investing in natural resources I presume you are commodities bull?
- Andrew** Certain sectors of the space, yes definitely. Obviously very keen on uranium, very, very keen on the gold price and gold equities per se, not so keen on certain base metals. I think we like nickel, we really like nickel just on a fundamental argument. We like the zinc price and zinc stocks on the fundamentals. Little more sceptical about copper for example, but it's really, does the world keep growing? If the world keeps growing the metals keep going up, not necessarily up but they keep giving you sensible returns back.
- Dominic** And does your City natural resource fund have exposure to soft commodity prices?
- Andrew** We do, we've got a few plantation companies – things like Anglo-Eastern plantations; MP Evans; REA - palm oil produces in the Far East. MP Evans is a bit more of soft commodity, a conglomerate but the palm oil price is sitting at a near all time high of around \$600, we're pretty optimistic. The other area we would like to get involved with but maybe not in these vehicles is water, because water, I believe, is the most precious natural commodity sitting in the world.
- Dominic** Well we're going to do a programme on water so you must come back, we're going to do a programme on zinc as well, so come and talk to us about that too.
- Andrew** Any time.
- Dominic** How do you invest in water, I mean apart from water services it's difficult. But let's not talk about that now – we'll talk about that another time. Let's go back to uranium. What do you think the UK needs to do if you were a consultant to one of the energy ministers, what would you be saying to them now?
- Andrew** I think they've got to pull their finger out to be quite honest with you. I mean, at the moment you know, uranium, everyone is talking about the metal, they're talking about how high the metal is going to go, from \$75 a pound; they're talking about demand but you've got to look at underneath, what's fuelling demand, demand is

being fuelled by new build reactor plan going on on a global basis; and you've got the Chinese, you've got the South Africans, you've got the Finns, you've got the Indians, you've got the Russians you know, and that's a tiny little proportion of some of the super powers in the world who are all building new reactors. The UK will dither, people's politicians tend to do that, nobody will want to upset the voters and we'll be left behind. I think they really need to pull their finger out and get on with it because the problem is the nuclear industry has been so unloved for so many years there's a dearth of people, there's a skill shortage, of people who understand, who can make reactors, the UK is actually blessed to some extent but there's only 4 or 5 companies who can license the technology to build new reactors. What will happen of course is that everybody else will get in the queue first and we'll be at the back of the queue, and so rather than go through the due public process, I mean the Chinese you've got to quietly admire them, they're quietly getting on with it – they know they need the energy, the South Africans are getting on with it, whereas over here in this country it will take politicians many public debates and hearings etc to make their minds up and it will 10 years down the line and it will be too late.

Dominic And we'll be paying top dollar?

Andrew And we'll be paying top dollar. We're 90 percent reliant on Norwegian and Russian gas imports for our energy needs which is a first for our nation, which is apparently what we are, it's pretty worrying really.

Dominic And I'm of the belief that we're not at or near peak oil but we are at or near peak cheap oil.

Andrew I think so. I mean, saw a lovely statistic in the weekend press the Chinese are still only consuming half the number of barrels per capita that America consume, for example. You know, when that statistic, just for it to move a fraction in sort of kilt with what we know in the west, it's going to have serious impact on the energy space. So yes I think the oil market is going to bounce very happily between where ever we are today at \$57 up to, probably maybe down to 45 but I think it's got the potential to higher as well.

Dominic But my point is, we've got to move into nuclear power because oil is not going to be cheap for much longer.

Andrew No, I mean the French have been laughing the whole way through the oil boom because 80 percent of their base load energy is from nuclear. And they took that step back in the 1970s when the last oil chaos hit and they've got it right, so I don't really understand, I think the UK currently generate about 15 percent of our energy needs from nuclear; it should actually be closer to 25, 30 percent. And then the government can bring it's fandangle wind turbine and everything else, which are nothing more in my humble opinion than glitz and playing up to the press, or the MPs or MEPs in Belgium because you need the wind to blow for starter and it doesn't happen every day.

Dominic They cost so much to build, they're about £1 million each to build.

Andrew Well the energy, I think some brain told me, that the energy used in making one of these wind turbines that we see, it actually takes the wind turbine 12 years to

generate, so it would pay for itself in 12 years but it would probably be packed up by then as well so you'd have to replace it. So I'm sceptical about it.

Dominic We're not building any nuclear reactors in the UK at the moment, am I right?

Andrew No, I did read something slightly encouraging in that they had put a tender out with a view to, because the problem is with the nuclear fleet in the UK is it's actually getting to its best before date, they'll probably stretch it out 10 years longer than they've said, which is great, but they really now need to start thinking very, very hard about how they are going to do it.

Dominic And can you see a time when our cars and trains are powered somehow by nuclear power, be it by electricity produced by nuclear energy or by some sort of hydrogen, do you see that time around the corner?

Andrew I could see hydrogen more than everybody having a nuclear reactor in their car, I think that would be a stone too far...

Dominic Well, no but you may pull your electricity at home and your home electricity might be generated.

Andrew Yea, definitely, it's the only sensible alternative. It's a good bedfellow for the hydrocarbons that we already use. It's the big thing that the politicians will tell you about is it's greener, and it is greener than burning fossil fuels for example, but in actual fact if I was a politician or the prime minister I'd be more worried about my surety of supply rather than relying on Mr Putin, who whatever you think, we all know can be unreliable as far as his gas supplies - all turned off at a moment's notice, it's not where we should be as a country I don't think; you would definitely want to ensure that the lights stay on and you can keep going, which is what nuclear, I think, provides because it sits on your own shores, on your own country.

Dominic How are we going to cure, this isn't your area of expertise I know, but how are we going to cure this ailment of short term, voter-pleasing policies that we have in government?

Andrew I think you have to go back, I mean it was before my time, but you know, you've almost got to go back and do what the likes of Mrs Thatcher did which was to stick her fingers up at everybody and just get on with it. Respect comes, I suppose, to those that earn it. I don't know. I mean, and do you know the real people to blame are us, your listeners to your programme because nobody actually gets off their arses and votes for change. And that's the truth of it; politicians are a waste of space, we all know that, because they'll never do anything to upset themselves or their own little cocoon, but it's actually us who deserve...

Dominic But, who do we vote for then?

Andrew Well, I'm not suggesting I'm not telling you who to vote for

Dominic No but I mean, David Cameron is in many ways another Tony Blair.

Andrew Well, he probably is, yea that's the problem; but I'm suggesting that if we don't vote we're not expressing our opinions and you know, soon might Mr Livingstone running roughshod and riot with his little fiefdom building London with congestion charging and tax, you know who's to blame? We are as the voters for not moving him on. So, I don't know who you vote for, I've no idea, but I'm suggesting there's a job out there for somebody who's actually going to be a little more frank and honest and open.

Dominic I couldn't agree more. And do you think the effects of Livingstone's tax might eventually hurt the city's place as one of the world's financial centres? Do you think?

Andrew Well I don't think so for the time being. I think the city's far more powerful than Mr Livingstone will ever give it credit for. I think Mr, who's the Northern Ireland Minister, at the weekend, Mr Haines came out and said that city bonuses should all be given to the poor, you know. They're all clutching at straws really I think; the city employs and creates a lot of wealth for a lot more people than those directly involved in it; no, I think London's here to stay, it would just be nice if the lights were still on!

Dominic That's a great line to finish on! Andrew Ferguson thank you very much; why don't you give out your website address one more time so people can find out a bit more about you?

Andrew The website's www.ncim.co.uk.

Dominic Andrew Thanks very much.

Andrew Thank you.

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