

Canadian gold sector activism slowdown may prove temporary, sources say

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- Fewer public battles for control of gold miners in second half of 2019
- Gold boards and shareholders learn from Paulson and Detour campaign
- Activist threat comes from those who know company best

The surge of shareholder activism in Canada's gold mining companies in 2018 and the first half of 2019 has tapered off in recent months, but the sector remains vulnerable to another increase, advisors told this news service.

This year is "quieter than last year, no question about it, but it's too early to tell if the surge is over," said Jonathan Feldman of Goodmans who represented US hedge fund Paulson in its recent proxy battle with the board of **Detour Gold Corporation** [TSX:DGC]. "The [number of] public fights have gone down but there's still vulnerabilities there and I'm not quite sure it's over."

Feldman noted that smaller issuers such as **Guyana Goldfields** [TSX:GUY] have been involved in fights recently and that "there's still a lot of quiet, behind-the-scenes activity in both the mining sector generally and the gold sector specifically."

"There has been considerable activity behind the scenes," agreed Ian Robertson, an executive vice president at Kingsdale Advisors, who advised on the Detour board side of the campaign against Paulson. There is "no indication that activism is going away" in the gold sector, which "still has a lot of investor fatigue, even with the share price rebound in recent months." The rebound "brought a stay of execution" for underperforming companies, he said.

For 2018, there were nine campaigns in the sector, versus three in 2019, according to *Activistmonitor* data.

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Company	Activist	Industry	Campaign Initiation
East Asia Minerals (CVE: EAS)	California Gold Mining	Gold mining	17-Jan-18
Turquoise Hill Resources (TSE: TRQ)	SailingStone Capital Partners	Nonferrous Metals	1-Feb-18
Colorado Resources (CVE: CXO)	Adam Travis	Gold Mining	6-Mar-18
Alexandria Minerals (CVE: AZX)	Eric Owens	Gold Mining	9-Feb-18
Global Atomic (TSE: GLO)	Greyling Investments	Platinum & Precious Metals	29-May-18
Western Troy (CVE: WRY.H)	Resurgent Capital	Base Metals	21-Jun-18
Detour Gold (TSE: DGC)	Paulson & Co	Gold Mining	22-Jun-18
Tartisan Nickel (CNSX: TN)	Belgravia Capital	Integrated Mining	7-Aug-18
HudBay Minerals (TSE: HBM)	Waterton Global Resources	Nonferrous Metals	5-Oct-18
Guyana Goldfields (TSE: GUY)	Northfield Capital	Gold Mining	2-Jan-19
Palladium One Mining (CVE: PDM)	Canal Front Investments	Base Metals	24-Jan-19
Mistango River Resources (CNSX: MIS)	Orefinders Resources	Precious Metal Mining	8-May-19

This recent share price performance might mask the lack of proper governance and long-term strategies, but these boards will eventually be exposed and be held accountable, said Robertson. He suggested that the time may be soon, because "now we're entering requisition season, where shareholders who have an issue will start prepositioning to either requisition a meeting or attack a company at their AGM."

Robertson argues that the factors that led to the recent surge in gold-mining activism are still present – "ill thought-out" transactions, low operational performance, missed targets, revisions to life of mines plans and undeserved golden paychecks. As well, he said, some gold mining boards and management still lack expertise, are out of touch with shareholders, have no "skin in the game" or fail to meet high governance standards.

SGC could play role in resurgence

The Shareholders' Gold Council (SGC), which describes itself on its website as a "Canadian not-for-profit corporation established to conduct research reports and studies of interest to investors in the gold industry," is likely to play a role in any resurgence of activism, Robertson said.

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This group was "set up to franchise out activism in the gold space," he argued. The current high price for gold mining shares has "slowed down their push but we fully expect that the group will be holding boards accountable for poor performance and bad decisions" and is "not going to go away anytime soon."

The SGC has been "quiet ... since last May," when it issued its last report, said Christian Godin, the head of the SGC. He disagreed that gold company share prices are high, saying that "a lot of them are closer to their historical lows than their historical highs." Godin argued that gold sector governance and management has not improved in the past two years and that, compared to base metals, the gold sector is plagued by "overspending." The "biggest issue is the relationship between operational performance and compensation," he said, adding that the SGC is currently working on "two topics that are relevant to the gold sector," with new reports coming in early 2020.

As to whether the gold sector is still more vulnerable to shareholder activism than other mining sectors, Feldman said that there are vulnerabilities in other mining industries as well and gold is no longer such an outlier. Gold is "more normalized as compared to two years ago," he said, adding that part of the reason for this is that boards have learned valuable lessons from the surge in activity.

Unlike a few years ago, Feldman said, today his firm is getting calls from boards seeking to act proactively in finding solutions to address their vulnerabilities. There is a general view that engagement with shareholders is "crucial", with gold mining boards becoming "much more open-minded and willing to hear from and act on ideas from shareholders."

A lesson that boards have learned in the past two years, Robertson said, is that the biggest threats come not from known activists but "from those who know the company best." He referred to "long term traditional shareholders like Paulson [and] Waterton," as well as "friends and insiders," such as Patrick Sheridan, the former chair and founder of Guyana Goldfields.

Feldman noted that potential activists have also learned lessons in the past two years and will be "much more educated and much more prepared." The Paulson/Detour battle, in which Paulson obtained control of Detour's board, "emboldened a lot of activists to take much more aggressive positions," he said. "There's a belief that [major changes] can be done" and trying to replace an entire board is no longer considered hopeless.

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Another lesson for activists from Paulson/Detour – a lesson which, Feldman said, guided Waterton Global Resource Management's strategy in trying to replace the board of **Hudbay Minerals** [TSX:HBM] – is to put forward independent candidates for board replacement versus a nominee from the activist firm, which can lead to the vilification of the nominee. Feldman represented Hudbay in this campaign.

by Mark Coakley in Toronto

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