

## COMMENTARY

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### Smart Money Series: Paulson & Co., the successful hedge fund, accumulated a significant position in small-cap gold miner Gabriel Resources in 2007, before the subprime collapse

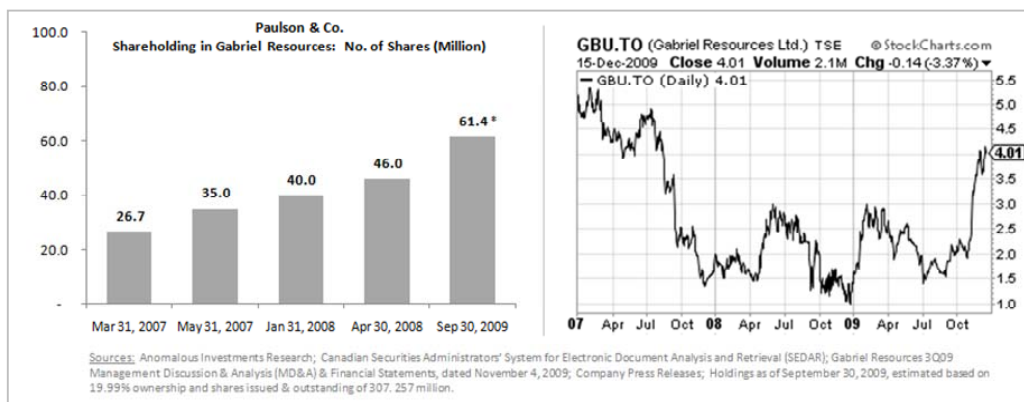
*Although much has been made of Paulson & Co.'s recent increased exposure to gold & gold mining stocks, a review of regulatory filings shows that the hedge fund was accumulating a large position in Canadian-listed Gabriel Resources as early as March 2007, well before the collapse of Bear Stearns and Lehman Brothers.*

#### 1. Introduction

Paulson & Co. has received much attention recently in both investment and media circles for its large investments in the gold sector, most notably its US\$ 3.1 Billion position in SPDR Gold Trust (“GLD”) and its US\$ 1.7 Billion stake in AngloGold Ashanti (“AU”). However, a little known fact is that the hedge fund was accumulating a significant holding in Canadian-listed, small-cap Gabriel Resources (TSX: GBU) in early 2007, well before the sub-prime induced collapse of Bear Stearns and Lehman Brothers.

Based on a detailed review of regulatory filings by Anomalous Investments (“AI”), it is clear that Paulson & Co was quietly accumulating shares in Gabriel Resources as early as Q1 2007. According to Canadian regulatory filings, as of March 31<sup>st</sup>, 2007, Paulson & Co. had already accumulated 26,700,000 shares of Gabriel Resources, amounting to approximately 10.8% of the outstanding shares. Based on Gabriel’s closing stock price of C\$4.30 on March 30, 2007, that valued Paulson’s early stake in Gabriel Resources at C\$ 114 million (US\$ 98 million, at the prevailing fx rate). A stake of almost US \$100 million in early 2007, in one small cap gold mining stock, is quite a statement as to Paulson’s conviction in gold.

Throughout 2007 and 2008, Paulson & Co. continued to increase its shareholdings, owning almost 46 million shares, or approximately 18% of the company, by the end of April 2008. In June 2009, the hedge fund participated in a private placement, bringing its holdings up to 19.99%. The following exhibit illustrates Paulson & Co.’s holdings since 2007, and Gabriel Resources’ stock price during that same period.



## II. Gabriel Resources Overview

Canadian-listed Gabriel Resources, which owns the Rosia Montana deposit, is a small-cap gold mining company with a world-class asset located in Romania. With 14.6 million ounces in gold resources, the company boasts that it has one of the largest, lowest cost, undeveloped open-pit projects in the developed world owned by a junior company.

At the end of third quarter of 2009, Paulson & Co. owned 19.9% of the company, however the hedge fund needed an “event catalyst” in order to surface the value of the company.

While Gabriel had already completed all of its feasibility studies, ordered its mine equipment and was ready to begin mine construction, it had been stymied by an inability to get an environmental permit. Opposition from NGOs had stalled the permitting process.

As of September 30<sup>th</sup>, 2009, the stock traded for C\$ 2.16 per share. According to Paulson’s 3Q09 Letter to Shareholders, he stated that if Gabriel received the necessary permits & began mine construction, that the stock could trade in the \$ 6.00 – \$8.00 range. Furthermore, if the company started producing gold, the stock could trade in the \$ 8.00 – \$12.00 range.

Gabriel Resources also has two other large shareholders, Newmont Mining and Electrum Strategic, with 16% and 19% stakes, respectively. They were also pushing to move the process forward. With a new CEO and a restructured Board, Paulson & Co. was hopeful that Gabriel would receive the necessary approvals.

Paulson & Co.’s investment in Gabriel Resources is typical of the hedge fund’s investment approach to gold mining companies, which is to look for companies with low Price/NAV multiples, and which could benefit from an “event catalyst”.

It should be noted that since September 30<sup>th</sup>, the stock price of Gabriel Resources is up 85%, closing at C\$4.01 on December 15<sup>th</sup>, up from C\$2.16.

## III. Conclusion

In Gregory Zuckerman’s recent book about John Paulson entitled *The Greatest Trade Ever*, he noted that Paulson & Co. had made \$15 billion in profits in 2007 from betting on falling house prices, and that John Paulson’s personal cut alone amounted to nearly \$ 4 billion, the largest one-year payout in the history of financial markets.

Mr. Paulson’s next major investment thesis, after the collapse of the housing market, was reportedly to be that the supply of US Dollars was expanding substantially, which would, in time, lead to a drop in its value, and an eventual surge in inflation.

Mr. Paulson’s was quoted as saying, “What’s the only asset that will hold value? It’s got to be gold. Three to four years from now, people will ask why they didn’t buy gold earlier”. Based on this conviction, he had purchased billions of dollars in gold investments, including gold mining stocks such as Gabriel Resources.

Could Paulson's gold investments eventually become *The (Second) Greatest Trade Ever*? Only time will tell, but the measuring stick is indeed very high.

Notwithstanding the very high bar, Mr. Paulson is reportedly starting a new dedicated gold fund, with \$250 million of his own money, and has recruited two high-profile analysts, Victor Flores from HSBC and Andrew Reade from UBS, to manage it.

He is clearly setting his sights high.

Note: Anomalous Investments does not cover Gabriel Resources formally. However, AI believes that it is instructive to follow what “smart money” like Paulson & Co. is doing with its investments in the gold sector, which is the reason why AI dedicates time to reviewing the hedge fund's regulatory disclosures.

Disclosures: AI Management does not own any shares Gabriel Resources.

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