Sample Stewardship Ratings

May 1, 2012

Eldorado Gold (EGO): Exemplary

Paul N. Wright joined Eldorado Gold in 1996 and was appointed president and CEO in 1999. A graduate of the University of Newcastle, Wright has more than three decades of experience in developing and operating open-pit and underground gold mines. Before joining Eldorado, he worked with Placer Dome, Redpath Group, and Granges. Since assuming his current position as CEO in 1999, Wright has guided Eldorado from a fledgling junior gold producer to the midtier gold producer it is today, all while maintaining an enviable cost structure that is among the lowest in the gold mining industry and growing production through internal exploration and development supplemented by accretive acquisitions.

Eldorado is one of the few companies in our gold mining coverage universe that has earned an economic moat, which is largely attributable to Wright and his management team amassing a portfolio of low-cost, long-life mining assets without paying an arm and a leg in terms of capital spending. Wright has accomplished this by focusing on under-the-radar mining jurisdictions such as China, Turkey, and Greece (where the competition for quality mining assets is less intense), as well as through prudent capital allocation. Indeed, Eldorado has largely avoided large, dilutive acquisitions--a common destroyer of returns in the gold mining industry--and instead focused on using its geological expertise to internally explore and develop gold mining assets.

The company is also committed to rewarding shareholders and in October 2011 initiated a gold price-linked dividend scheme that will increase its dividend in a higher gold price environment. The move makes Eldorado one of only two gold miners to link its dividend to gold prices, and we think the scheme benefits shareholders by limiting capital available for reinvestment when gold prices are peaking and by granting equity investors greater leverage to gold prices.

Kinross Gold (KGC): Poor

We believe Kinross' management team has not always exercised good stewardship of shareholder capital. Management has repeatedly issued large amounts of shares (which has more than tripled Kinross' diluted share count since 2006) to finance various acquisitions, many of which we think were value-destructive with the benefit of hindsight. The company is no stranger to impairment charges, writing down roughly $1 billion in goodwill at the end of 2008 related to its acquisition of Bema Gold, taking another $290 million in impairment charges on its Fruta del Norte deposit at the end of 2010, and writing down more than $2.9 billion in goodwill at the end of 2011 related to its Red Back acquisition. Management was able to pick up the Lobo-Marte project from Anglo American and Teck Resources for the bargain price of $250 million in December 2008, but apart from the Lobo-Marte transaction, we would be hard pressed to provide an example of a value-accretive acquisition consummated by Kinross in recent years. That being said, some of the assets bought by Kinross are still in their early stages, and may yet provide adequate economic returns for shareholders further down the road.

Kinross is headed by CEO Tye Burt, who joined the company in March 2005 after a previous stint with Barrick Gold as director of corporate development. Before working at Barrick, Burt worked for many years in corporate finance, which might help explain Kinross' appetite for deal making. We like the fact that the firm has a transparent board structure, with Burt being the only nonindependent member of the 10-member board. The board is chaired by independent director John Oliver, who has served in that capacity since 2002.