

Mining Returns

Midas Fund benefits through investment in companies with attractive fundamentals. Thomas B. Winmill, fund manager, looks at three pieces of data about any company—People, Projects and Pricing—to find quality companies with unique combinations of strength in operations, products, and finances. He believes that People—quality in management—is the most important, with the strongest indicator of quality found in their track record.

Q: What is the Midas investment philosophy?

A: Our philosophy is always to seek quality and growth in earnings. By quality we mean a business model that has a strong possibility of recurring profits over the long term. Applying this philosophy to the Midas Fund, we invest in companies that offer the potential for future growth.

Fortunately, the Midas Fund has a flexible investing approach, an important advantage in formulating a superior strategy to participate in this growth through volatile markets. Ultimately, Midas Fund seeks the highest possible risk adjusted return on investments across varied economic cycles.

Q: What are the key elements of your investment process?

A: Focus and discipline to stick with quality using fundamental analysis.

Fundamental data analysis is our core area of competency and we stick to it. There are basically three pieces of fundamental data we want to know about any mining company before we invest. We call them the three ‘P’s - People,

Projects and Pricing. Studying them consistently and in depth helps us arrive at an assessment where we can stack up the investment merits of the various mining companies relative to each other.

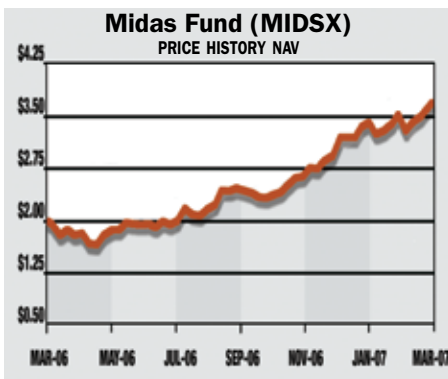
Quality of the people in management is most important for us because it will determine how well the company can execute its strategy. We believe that the strongest indicator of quality in management is their track record. In a mining company we look for a management track record showing they know how to bring a deposit to maximum production at minimal cost and time. If the company is involved in other aspects of natural resources, we look to see how well they previously executed their business strategy in that aspect.

Next, we study the project. If you have great management but the wrong project, then you are out of luck. You have to know a company on a mine-by-mine basis, and the bigger the company and the greater the number of mines, etc., the more demanding the analysis is. By learning how the mine will be developed we seek to understand what is



THOMAS B. WINMILL has served as the portfolio manager of Midas Fund since 2002. He has been president of the Fund’s investment manager since 1995. Winmill also serves as president and director for the Funds. He has served as a member of the investment manager’s Investment Policy Committee since 1990. As the current Chairman of the Investment Policy Committee, he helps establish general investment guidelines. Winmill is a member of the New York Section member society of the American Institute of Mining, Metallurgical, and Petroleum Engineers, Inc.

A graduate of Yale (B.A. Political Science and Economics, 1981) and the University of Washington, Condon School of Law (J.D., 1985), Winmill is a member of the bar of Washington State and New York State and the SEC Rules Committee of the Investment Company Institute.



going to be a driver of operating performance and how the market is going to receive certain announcements. So you should make an assessment of each mine.

The last thing is pricing. That is the typical portfolio manager's analysis of a company, looking at price to earnings, price to cash flow, and other financial metrics. In mining analysis it is a little different, because a mine has a finite life. So we look at the project as finite and estimate net discounted cash flows.

The financial analysis is the easiest part. The hardest is judging the people. But where we get the greatest competitive advantage is by focusing on the mining projects. If you really know those projects, you can get ahead of the crowd and make better decisions.

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Q: What is your strategy in terms of diversifying and building the portfolio?

A: There are many ways to start. We screen for companies, read research reports, company filings, trade publications and the like. We don't rely as much on past quantitative data and past activity because of the finite life cycle of mining. We look at past numbers only to the extent that we need to understand the ability of management to execute.

Having managed gold funds since the mid-1970s at Midas and its predecessors, we have a wide variety of contacts in the business. So one of my favorite sources of investment ideas is when I have a mining company executive in the office, and I ask them to tell me about their favorite company or deposit out there besides their own. And it's uncanny how these people can tell you about a great situation that is not widely known on the "street." These sources tend not to care about financial aspects, but they know the quality of their peers and the deposits because they are in direct competition. In mining, when a discovery is made, it helps to be among the first to capitalize on the situation before it becomes a well known story.

Q: Can you give us one or two examples of ideas that have become holdings?

A: Sure, let's look at Lihir Gold. Prior to 2005, Rio Tinto, one of the largest diversified mining companies in the world, owned about 15% of and controlled Lihir. Rio had other problems in the region and sold out as a stockholder and an operator in 2005. Under Rio's control, Lihir was undermanaged and undercapitalized. Business at Lihir was bad. The Papua-New Guinea

geographic location, tough climate and lack of quality management led to years of operational and financial underperformance.

Lihir has a very large reserve base of about 25 million ounces of gold, so it would be prudent mining to take out 2 million ounces a year, and then you have a 12.5-year mine life. Yet, under prior management, they were taking out 250,000 ounces a year and leaving a 100-year reserve base. That doesn't make any economic sense because the discounted value of 250,000 ounces 100 years from now is about zero.

The other strange thing about Lihir under Rio was that management had the mining equipment dig ore at a rate of 600,000 ounces a year, but they only installed mill equipment to process ore at the rate of 250,000 ounces. They were expensively moving ore and stockpiling hundreds of thousands of unprocessed gold ounces every year and not doing anything with it. So they are spending all this money on moving dirt around and not a nickel on return.

When Rio got out, Lihir brought in Arthur Hood from BHP and soon thereafter I sought out an opportunity to discuss his new business plan with him. First he was going to bring in a whole new management team. Then, they developed a plan to take mine production from 250,000 gold ounces to 600,000 in 2006 to 800,000 in 2008; by 2010 they hope to be up to a million gold ounces, and then maybe bring it to 1,250,000 ounces by 2011 or 2012. We're talking about a four- to five-fold increase in production in about five to six years, or maybe less, and that's exactly what I'm

looking for. In other words, we found experienced management that is focused to grow production.

Q: Would you describe your buy and sell discipline?

A: On the buy side, if the people and the project make sense, we ask ourselves whether the securities are fairly priced in the market. We look at our estimates of return on equity versus the probabilities of risk.

Sometimes the markets reward trading, rather than buying and holding. For example, in South America, if there is a situation with political risk, we try to be a bit contrarian, and have a long view. We might look for a company whose share prices have been pummeled because its main asset is in a country where there's currently heightened political risk. We like to be contrarian and buy those shares at depressed prices, because the deposit must be put into production for anyone to reap any value for it, whether it's from taxes for the government or from profit for the private enterprise that owns it.

Q: Do you measure yourself against any benchmark?

A: Not really. We own gold mining companies, natural resources companies, zinc and aluminum companies and diversified mining companies, and we have had exposure in natural gas and oil. We can also own plain growth companies. One benchmark we have consistently outperformed in the last five years is the S&P 500, which is important because we are competing with everybody else that's trying to make their investors money. We expect to beat inflation, we expect to beat Treasury bills, but our goal is to outperform all other equity funds for our investors, who are seeking capital appreciation.

Q: What kind of risks do you perceive? How do you control them?


A: There are many risks in commodities investing, especially in mining, and we seek to manage these risks with a focused, but flexible, approach.

The Midas Fund takes a quality approach to investment in any sector. We can own up to 35% in regular growth companies. We can be defensive and we can go to cash or use futures and options, and go long and short in any index. The board of directors is determined to give us all the tools we need to help us manage risks.

Risks can include mines and mining companies that are often in foreign countries, thus presenting political, currency and geographic risk. There is also a risk that the price of the underlying resource will go down. And because mining is speculative and capital intensive, there is a financial risk in interest rate rises. These types of stocks will be negatively affected by macro factors like interest rates.

We factor these risks into our investment decisions.

Q: What sets Midas Fund apart?

A: We are more tax efficient and we have some tax loss carry-forwards from the era of our prior management. We can sell a stock that has appreciated and not be overly concerned about incurring a taxable distribution to shareholders the way the other funds are. So, we have the flexibility to sell a stock if it has gone beyond our target and beyond a reasonable price. We can do that, whereas another fund might feel constrained and continue owning a stock that is perceived to have less upside than desired. We are free of that crucial constraint. 

Midas Fund

Symbol	MIDSX
Website	www.midasfunds.com
Address	Midas Management Corporation, 11 Hanover Square New York, NY 10005
Tel. No.	800-400-6432
Inception	01/08/1986

PORTFOLIO

Total Net Assets*	\$161.2
Avg Mkt Cap (\$ Weighted)*	\$5,000
Average Price/Earnings Ratio	14.1x
Average Price/Book Ratio	6.92x
Turnover Ratio	N/A

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$1,000
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$1,000

RISK (AGAINST FTSE GOLD MINES P IX INDEX - 3 YEARS)

Alpha	1.34
Beta	0.92
R-Squared	0.88
Ann. Std Deviation	29.91
Sharpe Ratio	0.85

RETURNS VS. MSCI EAFE ND INDEX

	MIDSX	Index
1 Year (Cum.)	22.55%	20.20%
3 Year (Ann.)	27.48%	19.83%
5 Year (Ann.)	19.67%	15.68%

RETURNS VS. FTSE GOLD MINES P INDEX

	MIDSX	Index
1 Year (Cum.)	32.16%	1.83%
3 Year (Ann.)	30.58%	9.33%
5 Year (Ann.)	32.19%	14.70%

FEES AND EXPENSES

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee**	1.00%
Total Expense Ratio	2.39%

PORTFOLIO MANAGER

Thomas B. Winmill	01/02/2002
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*millions **within 1 month of purchase

Data through: 03/31/07

Source: Company Documents; Lipper

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