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Sprott Hedge Fund IPO May Signal Top of Canada Commodity Rally

By John Kipphoff

May 5 (Bloomberg) -- Sprott Asset Management Inc.'s initial public offering this week will make a billionaire of the hedge fund company's founder, spurring speculation Canada's decade-old commodities boom is ending, investors say.

Eric Sprott's bets on gold and oil pushed his Toronto-based flagship fund to an average return of 27 percent a year since 1998, more than three times the gain of Canada's Standard & Poor's/TSX Composite Index. The fund bought mining stock **Thompson Creek Metals Co**. in 2006 prior to a rally that lifted it tenfold.

Sprott is cashing out eight years after forming the company that made him one of Canada's best-known speculators. The C$230 million ($226 million) IPO is reminiscent of last June's share sale of U.S. private-equity firm Blackstone Group LP, said Stephen Jarislowsky, chief executive officer of Jarislowsky Fraser Ltd. in Montreal. That IPO preceded a 56 percent decline in monthly takeover volume in the U.S.

``When the LBO firms went public, the next day, the game was up,'' said Jarislowsky, whose firm manages about $56 billion. ``Why is he going public? If it's going that well, why would you let anybody in on it? Why doesn't he just sell to his partners?''

Insiders led by Sprott filed last month to sell as much as 15 percent of the company, which manages C$6.9 billion in mutual funds and hedge funds. Sprott Asset plans to sell as many as 23 million shares, according to the sale documents. The founder's 78 percent stake would be worth about C$1.17 billion at C$10 a share, the mid-range of the estimated offering price. The shares are expected to be sold on May 7.

Biggest IPO

The deal, led by **Cormark Securities Inc**. and **TD Securities** Inc., may be the biggest IPO in Canada in five months, helping to revive the market for share sales. Neither Sprott nor any other executive at the firm were able to comment, Sprott's assistant Lydia d'Alessio said.

A chartered accountant from Ottawa, Sprott, 63, has been managing money for about 35 years. He started as an analyst at Merrill Lynch Canada Inc. and founded Sprott Securities Ltd., now called Cormark, in Toronto in 1981, before selling it to its employees in 2002. Sprott Asset Management was formed in 2000.

Sprott was paid C$83.8 million last year plus a share of more than C$570,000 in rent for his art collection. In 2001, he endowed the Sprott School of Business at his alma mater, Ottawa's Carleton University, with C$10 million.

Sprott espouses the ``Peak Oil'' theory that says new supply is insufficient to replace declining production. He devoted his April **newsletter** to the topic. The September issue stated simply, ``Buy Gold.''

Metals Rally

Prices of metals and other commodities have risen to records since 2002 as the U.S. currency declined along with interest rates, and demand for energy and building materials exploded. Canada's main equity benchmark, the S&P/TSX, has more than doubled since 2003 to a record 14,625.76 in July. That's twice the S&P 500's increase during the period.

After returning 26 percent annually for five years through 2007, Sprott's main mutual fund, the Canadian Equity Fund, has risen 2.3 percent in 2008, while the **S&P/TSX** has risen 3.2 percent.

Sprott's biggest investments remain silver and gold, the Canadian dollar, and companies such as Thompson Creek Metals, the Toronto-based miner of molybdenum, a steel-hardening element. He has shunned most finance stocks and began short- selling banks last year, according to filings.

Small Stocks

Many of the more than 300 stocks in the Canadian Equity Fund are small companies with market values of less than about C$1.5 billion. Some of them have turned sour this year as gold futures declined 17 percent from a record and countries such as Ecuador have sought to increase mining profits.

Aurelian Resources Inc.'s value was cut in half after Ecuador in April banned mining for six months. The developer of the **Fruta del Norte** gold mine slid 51 percent in two weeks.

``He may be a genius, I don't know,'' said Jarislowsky. ``I don't like the kind of stocks he invests in. They're little companies that may or may not have any substance.''

Timminco Ltd., one of Sprott's top shareholdings, has fallen 30 percent since April 16 after short sellers and analysts ignited concern its solar silicon may not meet customer demands. It soared 73-fold in 2007. Sprott, through various funds, holds about 19 percent of Timminco, according to Bloomberg data.

The C$348 million Sprott Growth Fund, managed by Peter Hodson, is down 10 percent this year after 2007's 35 percent gain, which beat 99 percent of competitors.

``Timminco's just noise,'' said **Greg Eckel**, who helps manage about C$1.2 billion at Morgan Meighen & Associates in Toronto, including Timminco shares. The IPO ``is pretty much a done affair. He's built his brand, he's built his name. I guess my worry is, is this is an indicator of a peak?''

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