14:03:14	Jan Harvey	thomsonreuters.com	The gold mining sector has had a tough few years as companies contend with rising costs and falling bullion prices. Here to discuss how gold producers are responding to these pressures, and the opportunities that may exist for investors, I'm joined by **Sector Investment Managers'** chief executive Angelos Damaskos.
14:04:06	Jan Harvey	thomsonreuters.com	The sharp slide in gold prices from their 2011 highs has hurt the gold mining companies. How well do you feel the sector as a whole has responded to this?
14:06:45	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	We think it is a particularly interesting time for investors, potentially one of the four low entry points over the last 35 years. A recent survey by PWC on the mining sector showed that whilst the top 40 diversified miners took some 5% of their market cap in impairments in 2013, the gold miners took some 19% of their market cap in write-downs. This suggests a much more drastic restructuring that should have left the sector in a much healthier state.
14:08:10	Jan Harvey	thomsonreuters.com	What's the cost environment like for the gold producers at present? Has cost inflation been significantly held in check by falling oil prices?
14:12:34	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	Costs have come down significantly primarily due to the spare capacity created by downsizing and deferment of marginal projects. High-grading, even though in many cases cannibalises mine life, has lowered costs per ounce produced. The recent halving of the oil prices has been a bonus to this highly energy-intensive industry, particularly those mines running diesel generators for power. We see significant cost improvements being announced in the third quarter results because of lower energy costs.
14:13:07	Jan Harvey	thomsonreuters.com	Do you think a leaner, fitter gold mining sector will take shape due to the pressure of falling prices? Are

			there any signs that this is happening already?
14:16:19	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	It is evident from recent financial results that most of the efficiencies have been squeezed out of the viable projects. Lower energy costs are the last bit of improvement to appear over the next few months. Balance sheets have been restructured, debt reduced and marginal projects shelved. The industry now relies on the gold price remaining above US$1,100/oz. Should it fall below this level for over a year, many large operations will have to be suspended and corporate failures could follow. On the other hand, should geopolitical and macro events cause the gold price to rise, the miners would flourish.
14:18:17	Jan Harvey	thomsonreuters.com	The strength of the dollar versus some of the other currencies has cushioned some producers from the impact of rising costs and lower prices. How vulnerable are some of those mining companies to a change in that situation?
14:22:43	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	Many Canadian and Australian miners advertise their much improved cost base in relation to the domestic currency value of gold. Whilst the depreciation of these currencies has been an important driver of lower operating costs, a reversal of the relative parity could change the situation. We feel that, even though these two commodities-linked currencies have taken a hit on the back of lower commodities and a Chinese economic slowdown, their economies are in much healthier state than the US, Eurozone and the UK in terms of state finances. Any event that exposes the weakness if the three leading currencies (US$, GBP and Euro) due to the huge government liabilities, could propel the Aussie and Canadian dollars sharply higher.
14:23:29	Jan Harvey	thomsonreuters.com	There was a return to net hedging last

			year for only the second time since 1999. What do you make of the way miners are using hedging now, compared to how they used to?
14:24:38	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	Miners these days use hedging to secure cashflow needed for debt servicing. This is the best way to approach a hedging strategy rather than speculate on the future value of the commodity.
14:25:05	Jan Harvey	thomsonreuters.com	Does hedging still make miners less attractive to investors, as was suggested during the boom years?
14:28:30	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	Investors in a gold miner nowadays seek exposure to a stock re-rating due to the rise in profitability as a result of a rise in the price of gold. Few people chase new discoveries and open blue sky as time horizons are shorter. Hedging removes some of the upside and, therefore, is undesirable. Nevertheless, these days we are all cognisant of the risks posed by commodity volatility and, therefore, some hedging relative to the fixed liabilities such as debt servicing and lease payments is welcome.
14:29:43	Jan Harvey	thomsonreuters.com	Do you feel the gold mining sector overall is undervalued at present?
14:32:08	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	We have felt the gold mining sector has been undervalued for some time now. Share prices have been drifting lower further highlighting deep-value. Due to the drastic restructuring made over the last four harsh years, the sector now offers outstanding value, especially if one is bullish on the gold price.
14:32:37	Jan Harvey	thomsonreuters.com	Where do you see opportunities here?
14:34:54	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	In the better capitalised, producing miners or those very near production with fully funded plans. The well capitalised producers have sustainability even at lower gold prices, whilst near-term developers stand to benefit from a lower

			operating cost environment that improves the IRRs of previous feasibility studies.
14:35:33	Jan Harvey	thomsonreuters.com	Can you talk us through your top picks in the sector?
14:35:57	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	Our representative top holdings in Junior Gold are:
14:38:17	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	Aureus Mining, that has recently commissioned its New Liberty mine in Liberia. The company is ramping up production, has low debt and relatively low operating costs as the ore is high grade. As operations stabilise, investors are likely to see the fundamental value whilst the operating risks are reduced.
14:40:23	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	Endeavour Mining is an extremely well-run West-African focused company. It has been growing production without unnecessarily high-grading and damaging mine life, and operating costs have come down hard. It has reduced its debt and offer high operational gearing to the gold price.
14:41:49	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	Finally, Lake Shore Gold operates mines in Canada, probably the best mining jurisdiction in the world. Again, it has improved its balance sheet, lowered costs and its steady operations place it with a comparative advantage in a rising gold price environment.
14:44:48	Jan Harvey	thomsonreuters.com	Thanks, Angelos! And thank you very much for joining us today
14:45:10	Angelos Damaskos (Sector Investment Managers)	thomsonreuters.com	Thank you very much for inviting me to the forum