



# JUNIOR GOLD

Investing in the mining giants of tomorrow

Update 10<sup>th</sup> August 2011

## FUND OBJECTIVE

*To provide long-term capital growth from a globally diversified portfolio investing primarily in small to medium capitalization companies specializing in identifying, developing and extracting gold. It may also invest in mining companies extracting other precious metals. There may be occasions, in light of adverse market conditions, when the Investment Manager chooses to hold high levels of cash, bonds and government securities. The Investment Manager may use derivatives for efficient portfolio management purposes only.*

## KEY FACTS

**Fund Category:** Natural Resources Specialist  
**Charges:**  
"C" shares (>£1k): 5.25% Initial, 1.75% Annual  
"I" shares (>£50K): 0.5% Initial, 1.5% Annual  
**Authorised Corporate Director:** Marlborough Fund Managers Ltd  
**Fund Adviser:** Angelos Damaskos  
**Minimum Investment:** £1,000 or £100 per month  
**Eligible for ISAs and SIPP's**  
**Fund NAV at 10.8.11: £34.0m**

## MACRO-ECONOMIC POSITIONING

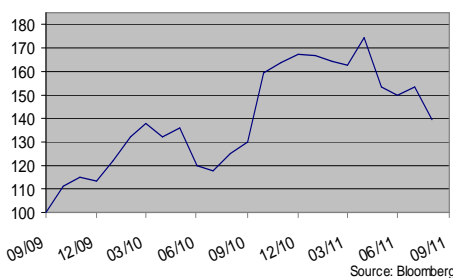
- Current macro-economic conditions make gold an attractive alternative store of value
- Government money-printing could stimulate inflation against which gold is considered a hedge
- Very strong investment demand for gold ETFs and gold coins
- Gold mining equities can offer better returns than gold bullion
- Smaller companies tend to outperform their larger counterparts

## FUND SHARE PRICE PERFORMANCE

## HOW TO INVEST

### JUNIOR GOLD

8 Sep 2009 to 10 Aug 2011



Since launch: +39.7%  
10.8.10 to 10.8.11: +15.5%

Past performance is not necessarily a guide to future performance. The value of your investment can go down as well as up

## MANAGEMENT TRACK RECORD

The fund is advised by Sector Investment Managers Limited (SIM), authorised and regulated by the Financial Services Authority. SIM also advises the Junior Oils Trust, a fund focusing its investments in junior oil and gas exploration and production companies (for information: [www.junioroils.com](http://www.junioroils.com)). SIM's management and advisers have extensive experience of investing in gold mining companies.

Call Marlborough Fund Managers:

**0808 145 2501**

For further information and documentation visit:

[www.juniorgold.co.uk](http://www.juniorgold.co.uk) or  
[www.sectorinvestments.com](http://www.sectorinvestments.com)

**Risk Warning:** This material is directed only at persons in the UK and is not an offer or invitation to buy or sell securities. The fund invests in smaller companies some of which are listed on the Alternative Investment Market which may carry a higher degree of risk. The shares of smaller companies may be less liquid and more volatile over shorter term periods. Changes in exchange rates between currencies may cause the value of investments to diminish or increase. Opinion expressed whether in general or both on the performance of individual securities and in a wider economic context represents the views of Sector Investment Managers Ltd at the time of preparation based on SIM's internal analysis which may have not been verified by independent sources. They are subject to change and should not be interpreted as investment advice. Before making an investment in the fund, it is important that you read the Simplified Prospectus which is available free by visiting the websites above. Sector Investment Managers Ltd and Marlborough Fund Managers Ltd are authorised and regulated by the Financial Services Authority

## Junior Gold update 10 August 2011

Gold is now reaching for new highs as investors seek a safe-haven. Global equity markets went into free-fall in the beginning of August on realisation of the debt problems of developed economies and the risk of slowing economic growth. The American debate over the national debt level and the consequent downgrade in its credit-rating simply highlighted the size and complexity of the situation.

The sell-off in global equities has further widened the dislocation between gold mining equities and the bullion price. We believe that gold shares currently discount a long term price of about US\$1,000/oz, which, given the strength of gold, cannot go on forever.

Since 2005 when gold broke above US\$500/oz, the Philadelphia Gold Mining Index is up only 91%, compared to a rise of 184% in the gold price. Compare this to the last great US financial crisis in 1930s when gold went up 46%, but shares in leading gold mining company Homestake Mining rose by 1,400%. If history repeats itself gold mining stocks could have a large rerating ahead.

As notable examples, let us look at two of the fund's largest holdings, to measure the impact on profitability the rise in the gold price is likely to have:

The largest holding in the fund is Focus Minerals (FML.ASX), an Australian gold miner which has announced it is on target to produce 130,000 ounces (oz) from its existing operations in the next twelve months. It is also about to conclude a merger with Crescent Gold, which expects to produce 100,000 oz next year. At 230,000 oz combined production, each US\$100/oz change in the gold price results in a US\$23 million increase in annual profits. The newly combined entity will have resources of 4.5 million ounces of gold and, at the current share price, trades at US\$61 of enterprise value (EV) per oz of resources. As the merger would change its status to the mid-tier producers category, its rating should be closer to the peer average of US\$115/oz. In addition, Focus has recently announced positive drilling results from its exploration activities and confirmed the discovery of a new "potentially significant" gold camp in its territory. Importantly, the company is debt free and unhedged and should therefore thrive in the current gold price environment.

Another prominent holding in the fund is Spanish Mountain (SPA.CVE), a development stage company with operations in British Columbia, Canada. Its Preliminary Economic Assessment assumes a flat gold price of US\$950/oz and expects average annual production of 213,800 oz during the first five years at a total cash cost of US\$570/oz, with mine-life expectancy of 10 years and estimated initial capital costs of C\$463 million. At this rate of production, each US\$100 rise in the gold price results in a US\$21.4 million rise in annual profits. At the current spot gold price the increase in profitability would exceed US\$170 million per annum. Like Focus Minerals, Spanish Mountain also has several attractive exploration projects. For a company with a market capitalisation of only C\$80 million, the potential for a major rerating is clear.

Approximately two thirds of the Junior Gold portfolio is focused on producing companies. The balance is spread among a number of carefully selected development stage or early production companies, like Spanish Mountain. We believe that the current weakness in gold shares is a temporary phenomenon and it will be a matter of time before a better balance is restored.

### **For dealing/inquiries on Junior Gold call Marlborough Fund Managers:**

**0808 145 2501** or email [dealing@marlboroughfunds.com](mailto:dealing@marlboroughfunds.com)

Junior Gold qualifies for SIPPs and ISAs

Further information on Junior Gold at [www.juniorgold.co.uk](http://www.juniorgold.co.uk)

### **RISK WARNING:**

*This material is directed only at persons in the UK and is not an offer or invitation to buy or sell securities. The fund invests in smaller companies some of which are listed on the Alternative Investment Market which may carry a higher degree of risk. The shares of smaller companies may be less liquid and more volatile over shorter term periods. Changes in exchange rates between currencies may cause the value of investments to diminish or increase. The value of your investment can go down as well as up. Opinion expressed whether in general or both on the performance of individual securities and in a wider economic context represents the views of Sector Investment Managers Ltd at the time of preparation based on SIM's internal analysis which may have not been verified by independent sources. They are subject to change and should not be interpreted as investment advice. Before making an investment in the fund, it is important that you read the Simplified Prospectus which is available free by visiting the websites above. Sector Investment Managers Ltd and Marlborough Fund Managers Ltd are authorised and regulated by the Financial Services Authority Issued by Sector Investment Managers Ltd.*