



JUNIOR GOLD

Investing in the mining giants of tomorrow

Update October 2012

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 31.10.12: £18.9m, share price: 97.25p

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



Since launch: -2.75%
31.9.12 to 31.10.12: -6.80%
31.10.11 to 31.10.12: -36.15%
31.10.10 to 31.10.11: +0.26%
31.10.09 to 31.10.10: +41.38%

As the first pricing point was on 8 September 2009 performance data does not exist for five complete twelve month periods. On 1.10.10 the fund changed its name and objective, therefore, past performance shown above prior to this date was achieved under circumstances that no longer apply

How to invest

Call Marlborough Fund Managers:

0808 145 2501

For further information and documentation visit:

www.juniorgold.co.uk or
www.sectorinvestments.com

Risk Considerations: Past performance is not necessarily a guide to future performance. The value of your investment can go down as well as up. The fund invests in smaller companies which may carry a higher degree of risk than larger companies. 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 fund focuses on a specific sector and has a concentrated portfolio which can lead to greater volatility.

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). SIM's management and advisers have extensive experience of investing in gold mining companies.

Junior Gold update 19 November 2012

Dear Investor,

Following the re-election of President Obama, markets quickly shifted the focus to the fiscal cliff issue, triggering a sell-off in equities and a surge in US government bond prices. The US Dollar weakened against the Japanese Yen and Emerging Market currencies but gained against the Euro. A continuation of the Fed's highly accommodative monetary policy and a political compromise to avoid hitting the so-called fiscal cliff of higher taxes combined to lower government spending are highly likely. As a result, the US Dollar could devalue further against other, stronger, currencies. However, events in the Eurozone remain a key concern. Comments from European Central Bank President Mario Draghi on the German economy finally being hurt by the Eurozone crisis, together with disappointing German industrial production data, indicate that the full effects of global austerity programmes are yet to be seen. Trade data suggest that the Chinese economic growth rates are slower and weakness in demand from the Eurozone, China's largest trading partner, is a large part of the problem.

The Eurozone's problem of fragmentation and the cultural opposition, among citizens of various member states, to fiscal unification seems to be getting worse. There is evidence of re-nationalisation of banking systems and differences in the member states' cost of funding that go beyond fundamentals as Mr. Draghi pointed out in his recent speech. The polarisation of the electorate in troubled states, with substantial shifts to extreme left or right political parties is alarming. The historically high unemployment rate, especially at the entry-level of the workforce, is the root of unrest and violent clashes with the police that seem to grow in strength and regularity in Greece and Spain. Continually tightened fiscal austerity measures necessitated by the crushing demands of external debt are likely to further depress the local economies and prolong unemployment, supporting extreme polarisation.

In this environment of growing risks with little visibility of workable and sustainable solutions, investors are risk averse and look for safe-havens. Gold is one asset that has historically been favoured by investors in times of instability and inflation. Continued printing of money by desperate governments is likely to stoke inflation and socio-political instability is set to continue. Gold is on track for its twelfth year of consecutive annual price increases. Given the size of problems in the global economy and their unlikely resolution in the medium term, the rising trend is set to continue for several years in the future. It is, therefore, surprising that investors seem to ignore the producers of this most valuable commodity. Shares in gold mining companies have languished and lost value in the last year and a half. This has happened despite the fact that most producers have enjoyed growing cash flows and rising profits during this period even though operating costs have also been rising rapidly.

An explanation for the valuation mismatch between gold mining shares and the price of gold is that, in times of uncertainty, investors do not like holding assets whose value can be influenced by sentiment. Should the global equity markets experience a rapid correction for whatever reason, shares in smaller companies can be significantly marked down in price as buyers evaporate. However short-term this situation might be, investors generally wish to avoid exposure. Another indication of current investors' preferences is the global allocations of pension fund assets that have recently been reported to be overweight in bonds and underweight in equities. Furthermore, their equity allocations tend to favour larger capitalisation companies that offer greater visibility, balance sheet quality and some dividend yield. The result has been that the main stock-market indices, the FTSE 100, Dow Jones Industrial Average and Eurofirst 300 are trading near multi-year highs. Conversely, indices relating to commodity producers trade at multi-year lows as investors perceive that there is greater risk to that sector from slowing economic growth and mining shares are typically less liquid and more volatile than the market.

This situation is likely to change soon. Large industrial companies have recently been reporting slowing profits and have warned on risks to their activity as a result of the slowing economy. Inflation rates have been rising and are likely to impact corporate profitability as companies will be unable to pass higher costs to consumers in a weak marketplace. Conversely, the strength in commodity prices, most notably gold, is likely to improve earnings and profitability of the miners. Once investors accept that the confluence of inflation, a slowing economy and large obstacles to its recovery are likely to support gold prices higher for longer, they will buy the mining shares again, promoting a significant rerating.

Angelos Damaskos
Chief Executive Officer

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

0808 145 2501 or email dealing@marlboroughfunds.com

Junior Gold qualifies for SIPPs and ISAs
Further information on Junior Gold at 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 Prospectus and Key Investor Information Document is available free of charge using the contact details above. Before making an investment in the fund, it is important that you read the Prospectus and Key Investor Information Document. 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 SIMs internal analysis which may have not been verified by independent sources. They are subject to change and should not be interpreted as investment advice. Sector Investment Managers Ltd and Marlborough Fund Managers Ltd are authorized and regulated by the Financial Services Authority.