JUNIOR GOLD

Investing in the mining giants of tomorrow

Update January 2013

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.

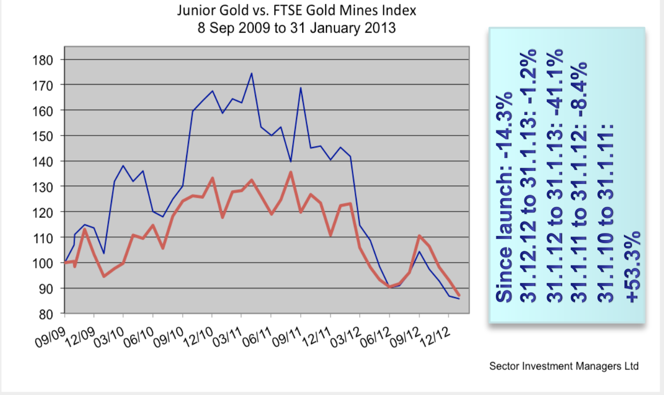
Key facts

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 SIPPs
Fund NAV at 31.1.13: £16.1m,share price: 85.72p

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



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

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.

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.

Junior Gold update
1 February 2013

Dear Investor,

Supported by rising demand for gold among investors, the bullion price registered its twelfth successive year of gains in 2012. At the current price of about $1,665/ounce most gold mining companies are generating strong cash-flows and profits. Nevertheless, shares in gold miners remain oversold and out of favour as investors seem to think the gold price will continue to drift lower in the years ahead jeopardising the miners' profitability.

The consensus of lower gold prices in the years ahead fails to recognise that the world's economic prospects have deteriorated in the last twelve months, not improved. We believe that the peak of the gold price can be determined by the following three signals: (i) world economic growth increasing above the 2.5-3.0% long-term rate; (ii) the debt problems and deficits of the developed economies being settled into a manageable plan; and (iii) unemployment rates coming down significantly as industry takes a more confident view of its future and increases capacity.

It is presently unthinkable that these basic conditions will be achieved in the next few years. On the contrary, it is likely that further quantitative easing, the easy solution to the immediate debt problems, could stoke inflation and further diminish real growth prospects and stronger employment levels. Despite comforting rhetoric from government officials, it is clear that the ultimate goal of monetary and fiscal policy in the EU is to re-engage the private sector in funding the economy. It is well known that the one-sided funding via central banks will inevitably lead to high debt to GDP ratios, inflation and a spiral of recession.

The shocking report last week of a contraction in the US GDP in the fourth quarter of 2012 further highlights the risks. It is likely that the contraction was induced by cuts in government expenditure as US agencies prepare for final agreement by Congress on the "Fiscal Cliff" and "Sequestration". The most likely scenario on both these radical changes is that Congress will agree to some sort of a compromise that will still imply significant cuts in government spending and higher taxation for years to come. The result of these actions will unquestionably be a drag on US economic growth and, therefore, a continuation of easy monetary policy and money-printing. Given that the situation is no better in Europe, the UK or Japan, the competitive devaluation of the respective currencies is set to continue against those of healthier economies, prompting investors to seek the safety of alternatives, notably gold.

An analysis of the North American listed gold equities index over gold bullion (HUI/GOLD ratio) indicates that it trades near the lows seen at the height of the financial crisis in 2008. Previous lows in this ratio have come along with lows in the gold price. A rebound in gold plus expansion in the ratio has resulted in powerful moves for the stocks, with the last rally adding 30% to the HUI. The upside could be significant – say the gold price was up by 4% to USD 1720 and the ratio back to 0.29, this would put the HUI almost 25% higher than it is today.

The gold price has shown a tendency to break out of its recent trading pattern. If it does, gold mining shares should be rerated rapidly and substantially. Those companies with growing operations, a manageable cost base, solid balance sheet and good development prospects are likely to benefit first. The smaller companies meeting these criteria that have been hit hardest in the sell-off could enjoy the sharpest recovery.

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: