JUNIOR GOLD

Investing in the mining giants of tomorrow

Update January 2014

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.

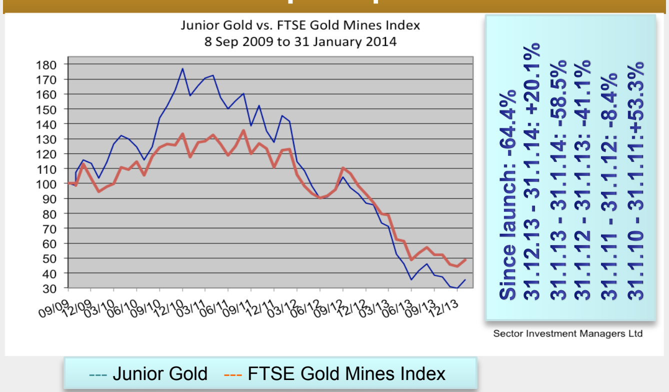
Key facts

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 31.1.14: £8.0m,share price: 35.56p

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 NAV to NAV 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 Conduct 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
12 February 2014

Dear Investor,

The New Year started with renewed optimism for gold mining shares. The gold price appears to have found support at $1,200/oz and, even though it only bounced up by about 4% in January, gold shares rose by 8% as measured by the GDXJ:US, the small-cap index. The Junior Gold fund enjoyed a much larger re-rating of 20.1% due to its focus in producing, well capitalised companies.

The fundamentals for gold are well understood in the market. Massive liquidity programmes by central banks risk are debasing the key reserve currencies. The global economy has only recently shown some signs of growth but, at these low rates, the debt mountain will not be reduced for many years to come. Many risks lie dormant such as the Eurozone's instability and general unease about the solvency of its banking system. China, the main driver of economic growth since the global financial crisis, appears to confront its own problems of asset bubbles and opaque banking practices. We believe that any event that undermines confidence would cause investors to look to gold as a safe-haven again. The massive liquidation of ETF gold holdings that caused the dramatic drop in the gold price last year could reverse just as quickly as new positions are acquired. On the supply side, Asian investors have been amassing physical gold at increasing rates. These investors are long-term minded and will be unwilling to sell their holdings as the price rises. The mining industry has suffered the worst bear-market in recent history. Marginal operations have been suspended and new projects cancelled. Exploration expenditure has fallen to historic lows as investors and capital markets did not want to know. Given the massive restructuring of the gold mining industry in the past two years, production is contracting rapidly, therefore, a rise in investment demand for gold would be met by constrained supply.

Assuming the price of gold rises, many think gold shares should be a one-way bet. I would argue that, even in a rising tide, not all boats will float. Having just returned from the Indaba Mining conference in Cape Town, my feelings were that mining companies are still over-optimistic and keep on burning through their cash reserves, while investors are over-cautious. A big factor in the gold share sell-off over the past two years has been the lack of transparency in operating costs and long-term profitability. Most companies used to report just "cash costs" and, in some cases, "negative costs due to by-product credits". In reality, after all the costs of finding, developing, financing and operating a mine are accounted for and taxes or royalties are subtracted, many operations are currently losing money. It would take a significant rise in the gold price for these mines to return to profitability. A sensible investor, therefore, should focus on a detailed scrutiny of the cost structure as well as the prospective reserves and mine life. A big danger in the current climate of companies trying to lower their costs to survive is that the resultant "high-grading" or mining of the more profitable zones, can damage the economic life of a mine even if the gold price rises in the future.

The sweet spot, in our view, in an environment where the gold price rises modestly towards $1,350/oz and beyond are those companies with the following characteristics: (i) strong balance sheet that does not rely on the capital markets for funding; (ii) organic growth in production that introduces economies of scale thus declining average all-in costs; (iii) Large reserves relative to the Enterprise Value of the company as compared to the respective peer group; (iv) low political and operational risks; and (v) fully funded development programmes for new mines that would operate under the first four criteria. As the gold price recovers, these companies benefit from the greatest operational gearing on their profitability. We also expect consolidation activity to intensify, focusing on companies meeting these five criteria. However, industry players will not overpay for their targets as there are few that have the financial resources to engage in transactions. The notable example is the hostile takeover by Goldcorp for Osisko Mining, offering a 15% premium to the last closing price of its target. With no competing suitor, there is little leverage for Osisko to demonstrate to its shareholders that it is worth more. Osisko was a core holding for Junior Gold prior to the Goldcorp approach and we decided to liquidate at a premium to the offer, re-investing the proceeds in more prospective opportunities. Some share deals and merger of equals also provide a way to increase access to financing and ability to deliver development projects such as the all-share merger between Asanko Gold and PMI Gold, both developing new mines in Ghana. We had holdings in both Asanko and PMI prior to the merger announcement and the newly enlarged Asanko is now Junior Gold's largest individual holding. We think many other corporate deals are being prepared in the sector.

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**