

JUNIOR GOLD

Investing in the mining giants of tomorrow

11
YEARS
TRACK
RECORD

Update August 2020

FUND OBJECTIVE

To provide long-term capital growth, that is, increase the value of the fund's units, from a globally diversified portfolio investing primarily in small to medium capitalisation companies specialising in identifying, developing and extracting gold and other precious metals. Portfolio companies will operate in a variety of jurisdictions but those with material operational exposure to politically unstable regions will be avoided.

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

"P" shares (>£1m): 0.5% Initial, 1.1% 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 31.8.20: £18.0m, "C" price: 52.18p

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

Junior Gold vs. FTSE Gold Mines Index
8 Sep 2009 to 31 August 2020



DISCRETE PERFORMANCE

Since launch: -47.8%
 31.8.19 – 31.8.20: +40.5%
 31.8.18 – 31.8.19: +20.5%
 31.8.17 – 31.8.18: -23.4%
 31.8.16 – 31.8.17: -23.1%
 31.8.15 – 31.8.16: +152.4%

Data Source:
Bloomberg

HOW TO INVEST

Call Marlborough Fund Managers:

0808 145 2501

For further information and documentation visit:

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

TOP 10 HOLDINGS

COMPANY	% of NAV
1. Caldas Gold	5.2
2. Aurcana Silver	5.1
3. Silver One Resources	4.3
4. Discovery Metals	4.2
5. Geopacific Resources	4.0
6. Roscan Gold	3.8
7. Minaurum Gold	3.2
8. Condor Gold	2.8
9. Cabral Gold	2.8
10. Red 5	2.6
Total top 10	38.8

As at 31.8.20

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 15 September 2020



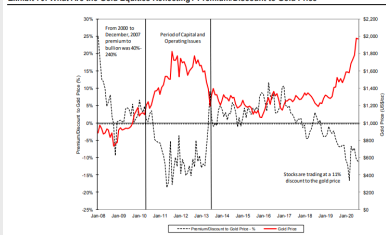
Dear Investor,

As the global economy struggles to recover from the severe effects of lock-downs in the aftermath of the pandemic, central banks and governments around the world are contemplating ways to stimulate and support growth. The most important of all, the Federal Reserve of the United States of America, has recently announced their willingness to accommodate higher inflation rates whilst keeping interest rates low for the foreseeable future. Their position might not be an easy one to change given the massive debt accumulated with the support programmes already pledged and the significant rise in unemployment as many business sectors face uncertain prospects in the face of a still rampant pandemic. Inflation might rise anyway as businesses find it hard not to pass some of the costs of the lockdowns to consumers. Interest rates will have to stay low to help with servicing the newly assumed debt, by both the state and private sectors, especially as state fiscal income drops with lower economic activity.

Global equity markets have been very strong since the pandemic shock in February and March, with some indices reaching new all-time highs. To a large extent this is the result of a reflation trade as investors realise that higher inflation and low interest rates will likely erode the value of money, thus preferring to buy economic interests in businesses that might survive. The huge interest in technology shares, which rely on the internet thus avoiding physical movement restrictions, is understandable but what is difficult to comprehend is the total disregard of conventional valuation metrics. The most obvious example to us is Tesla which, even though it is a physical car manufacturer, selling physical products to physical markets, its association with the "technology sector" has pushed its valuation to 10 times that of General Motors and some 2-3 times that of Toyota, the world's largest car company. This is not rational and bound to correct at some point in the future. Nevertheless, seasoned investors know that markets can stay irrational for long periods of time but they also know that it is sensible not to always follow the momentum of the herd but try to protect value before "irrational exuberance" gets exposed.

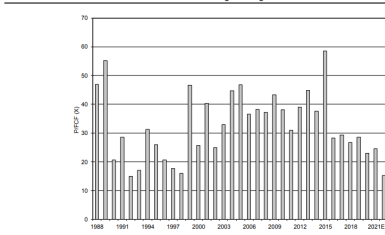
Under the circumstances, precious metals have attracted a lot of interest and gold-backed ETF holdings continue to accumulate at rapid rates. As supply of gold bullion has been short, its price has risen to new all-time highs, surpassing the levels seen in the previous, decade-long bull market between 2001-2011. The shares of gold miners have performed well in the past year or so but we think they are still undervalued in relation to the price of the commodity they extract and market. A study conducted by Scotia Banks' metals team highlights three important metrics (in their universe which includes companies across the large and mid market capitalisation spectrum) in this regard: (i) gold equities currently trade at an 11% discount to the bullion price; (ii) the average Price to Free Cash Flow is lower than what it was at the beginning of the previous bull market (2001-2011); and (iii) the historical Price to Net Asset Value (P/NAV) has only started to rise in the past year or so and is still at low levels in relation to the 35 year average.

Exhibit 70: What Are the Gold Equities Reflecting? Premium/Discount to Gold Price



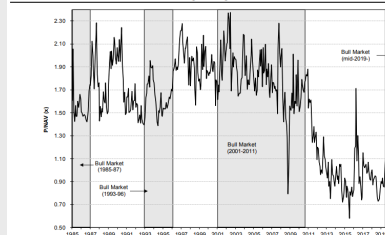
Source: FactSet, Scotiabank GBM estimates.

Exhibit 58: Price to Free Cash Flow – Universe of Coverage Average



Source: Company reports; Scotiabank GBM estimates.

Exhibit 60: Historical P/NAV – Universe of Coverage Average



Source: Company reports; Scotiabank GBM estimates.

Source: Scotia Bank GBM estimates

Our Junior Gold fund has been outperforming its peer group in the year to date (as tracked by the Morningstar sector equity precious metals) as smaller capitalisation companies catch up with the bullion price development. The fund is primarily positioned in companies with late stage exploration and development projects in safe political jurisdictions. As the management teams of the larger producing peers realise their limited growth potential, corporate activity is intensifying. Investors now see that the quickest way to new production is by accelerating the development of previously neglected projects, especially those that are endowed with good geology and prospects to grow their reserves and resources. Further rating of these promising growth companies is warranted.

Angelos Damaskos
Chief Investment 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: All data is provided by Sector Investment Managers Ltd unless otherwise stated. Past performance is not necessarily a guide to the future. The value of investments and the income from them may go down as well as up. Investors may not get back their original investment. The fund invests in smaller companies and 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. This material is issued by Sector Investment Managers Ltd, is directed only at persons in the UK and is not an offer or invitation to buy or sell securities. 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 Key Investor Information Document. Prospectus and Key Information Document are available free by visiting the websites above. Sector Investment Managers Ltd and Marlborough Fund Managers Ltd are authorised and regulated by the Financial Conduct Authority.