

SF tips Smaller Companies **Gold** Fund

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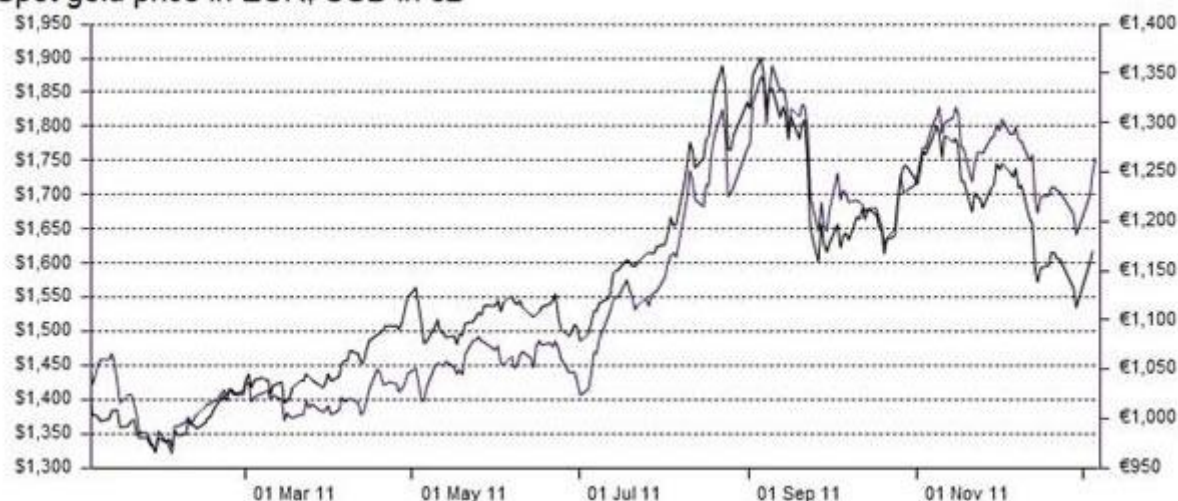
All eyes on the Eurozone... for now - By Ross Jones & Tom Winnifrith



Moving into a new year, and despite the recent rhetoric from Merkel et al, we remain of the view that the Euro, in its current form, is unsustainable. Given the Eurozone turmoil, in 2011 investors fled to the Dollar as the short term safety play. Over the last few weeks we have seen Gold, in Dollar terms, retrace to \$1,600 an ounce, as market participants scrambled to find Dollar liquidity. We believe this faith in the Dollar to be ill-founded and reckon that it is only a matter of time before the investment World's gaze returns to the US. If we look at how Gold behaved in Euros over the same time frame (as can be seen in the below graph), it is clear that the last few weeks were predominantly driven by a move to gain Dollar

liquidity – the fall in Euros was by no means as rapid, sustained or profound as that in Dollars.

Spot gold price in EUR, USD in oz

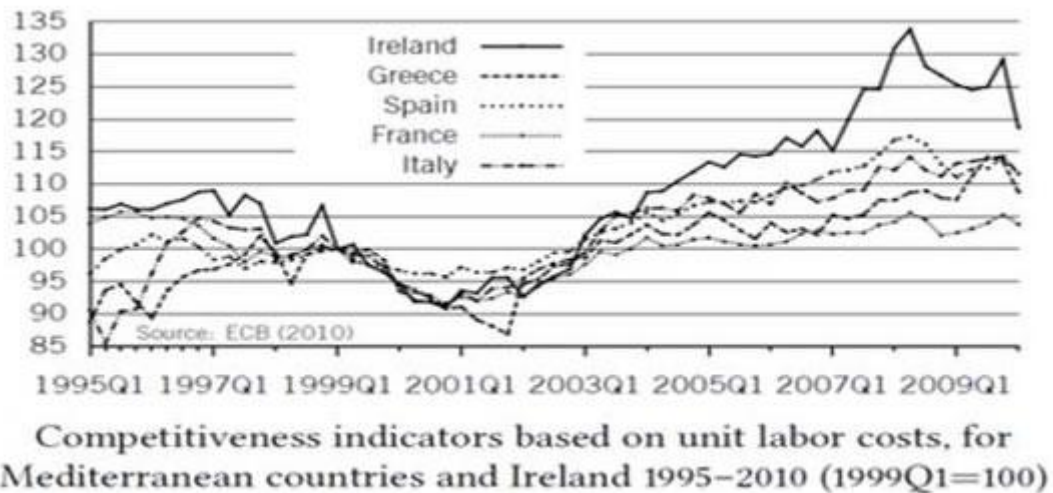


(Source: World Gold Council)

The gaze of the investment world is, however, unlikely to turn back to the US's financial position and respective debt levels, until a decisive move is made in Europe. We believe this 'move' will be the ECB embarking upon its own round of QE.

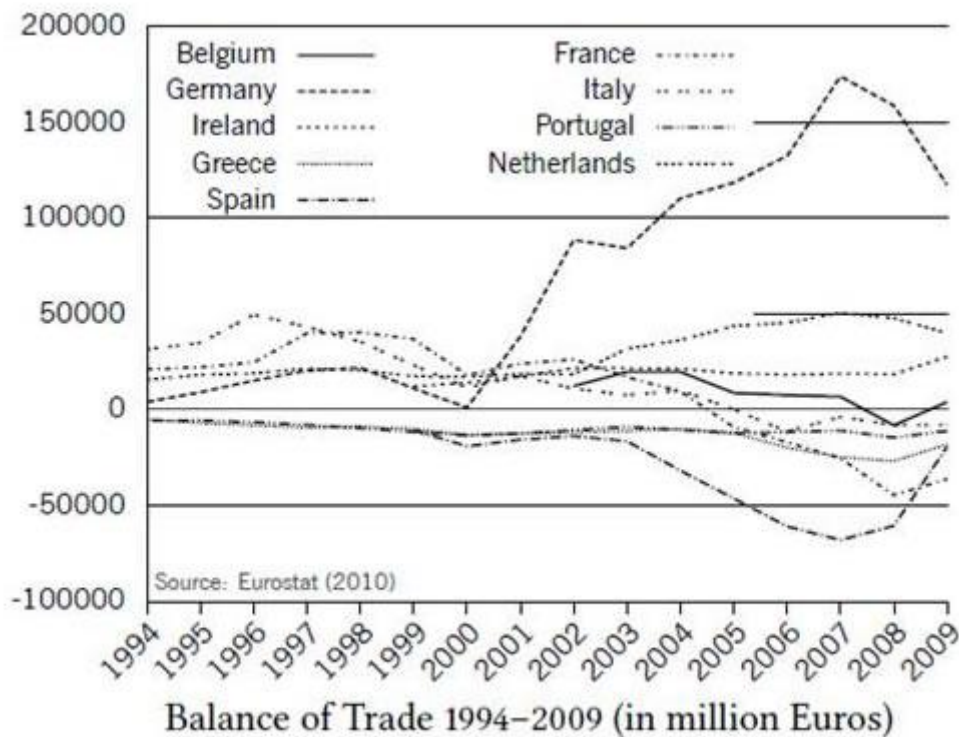
More than ten years ago, when the ECB was formed, it took on the prestige of the Bundesbank, and since then the goal posts have been moved a number of times in regard to what can and cannot be done within the EU when it comes to non market interventions. Looking back to when the Euro began to circulate; weaker nation's risk premiums were reduced superficially as it was immediately anticipated that the stronger nations, principally Germany, would help to support their weaker brethren. Easy access to money and loose credit expansion helped to finance and expand, what we can now see to be, unsustainable welfare states and profligate spending within the weaker economies.

A two tier Europe has emerged and this is exactly what is at the core of the regions troubles today – the attached graph shows clearly, through unit labour costs, how since the Euro's inception the majority of the weaker economies have become more and more uncompetitive. This is just one of the issues facing the region. There is now the realisation that the most recent growth is not sustainable by real savings and real development. But instead of letting markets cut their own path through the mess (which we believe would lead to a faster and more solid recovery as has been seen in Iceland) governments have intervened. This has had the knock on effect of forming the quagmire in which we are now..



The region's governments have attempted to prop up failing sectors by further increasing spending and offering direct support to their respective financial sectors. Regulated labour markets and businesses taking the foot off the gas have caused unemployment to rise which has subsequently resulted in benefit spending shooting up and social security and tax incomes falling. Ultimately deficits and debts have soared, and it is the weaker, previously credit driven economies that are suffering the most. It is becoming apparent why numerous, different economies cannot be housed under one monetary roof.

If for example Greece did not have the region's single currency, the country could embark upon, amongst other things, the typical route of weakening its respective currency to increase its competitiveness. This however is not an option and for the time being the region's elite are kicking the can down the road by supplying more loans and attempting to put in place austerity measures to reign in the spending. Greece et al, should however not be blamed entirely for their current predicament – as we can see; the introduction of the Euro gave Germany a wonderful marketplace for its exports – it has clearly taken two to tango.



Unlike Greece, and the other indebted European nations, the US has direct control over its own monetary policy and we expect that this will be exercised again sooner rather than later. We continue to believe that, given the country's ever increasing debt pile and the need to keep a top on rates, the US will kick off another bout of QE in the first half of this year. William Dudley is already paving the way for it. Right now the focus is on the EU and the Dollar is the short term safety play, but as QE kicks off here in the EU, along with a further bout in the US, we believe that Gold will revert to being the World's longer term safe haven as inflationary pressures hit home.

The best strategy, in our view, is not direct investment into Gold, but investment into the actual companies that produce the yellow metal. There has been recent talk that the emergence of ETFs, etc, as a means of gaining exposure to Gold, has damped appetites for miners, but we continue to believe it will be the companies mining the product that benefit the most. Step away from the Gold market, and if the sale price of a product a company is selling/produces increases dramatically, operational gearing typically results in disproportionately positive cash generation. This should subsequently kick off a material market re-rating, especially in a sector where production levels have been falling for the past three years. Fundamentally, gold mining equities are no different to any other industry and that is why we continue to pick up shares in quality companies whilst we can as multiples of less than 1 and 2 times projected cash flow will not stick around forever.

Ross Jones - Equity Analyst & Tom Winniffrith - Fund Manager

You can download the application [form](#) from and here and the simplified prospectus from [here](#). If you have any questions please contact Sarah Read on 01624 641 318 or email goldfund@t1psim.com.

Fund Information

Size:	£18,166,987.25 (09/01/12)
Launch date:	24 July 2009
Launch price:	£1.00
Current Yield:	0.00%
Legal Status:	OEIC
Annual Management Fee:	1.5%
Initial Charge:	5.25%
Minimum lump sum Investment:	£500.00
Minimum monthly investment:	£25.00
SEDOL code:	B3YQ855
Unit offer price:	Single Priced Fund Last Dealt Price: 143.12p (09/01/12)
Unit bid price:	As Above

Top 10 Holdings

Stock Name	Fund %
Ariana Resources	9.25
Ascot Mining	6.62
Hambledon Mining Plc	5.50
Vatukoula Gold Mines	5.16
Conroy Gold	4.51
Cluff Gold	3.80
Norseman Gold	3.53
Shanta Gold	3.05
Fine Majestic	2.97
Ovoca Gold	2.89

Benchmarking

Total return, bid to bid line chart from 11/09/2009 to 10/01/2012 from UKUT and OEICs Universe



Cumulative Performance 09/01/2012

	1m	3m	6m	1y	2y	Since inception
SF T1ps Smaller Companies Gold Fund	2	-2.05	-21.07	-41.47	27.20	43.10
Specialist	0.5	2.5	-12.8	-14.2	-1.60	11.81

Discrete Performance 09/01/2012

	0-12m	12-24m	24 - start
SF T1ps Smaller Companies Gold Fund	-41.47	117.33	12.50
Specialist	-15.7	19.8	0.43

The Fund was launched in September 2009 and 3-year and 5-year performance results are not available.

Source: Financial Express

Past Performance is not a reliable indication of future results

How To Buy Gold Fund Units

1. You can deal through www.JPJShare.com at the initial fee rate of 2%.
2. Contact your broker. Most brokers offer the chance to buy units although few can match JPJShare.com's initial rate of 2%. But call your broker and give him the fund's SEDOL code: B3 YQ 855. If your broker will not deal please call Sarah Read on 01624 641318 and she will try to rectify the situation.
3. Deal directly through t1ps and The Share Centre at the initial fee rate of 2.5%. If you want an application form email goldfund@t1psim.com or go to www.t1psim.com.
4. If you choose to invest directly, once you have made an initial investment (of as little as £500) you can set up a monthly standing order with The Share Centre to drip feed further cash (as little as £25 a month) into the fund. All existing fund holders can set up such an order.

If you have any questions about investing in the SF t1ps Smaller Companies Gold Fund visit our website at www.t1psim.com or email goldfund@t1psim.com.

You can download the application form from [here](#) and the simplified prospectus from [here](#).

In terms of news flow... - By James Faulkner



Having recommended mining after a one week shut down (a result of a split in the lining of one of its tailing dams) on 7th November 2011, **Hambledon Mining** noted the day after that it had kicked off underground mining at its flagship Sekisovskoye operation. The key milestone was reached one month ahead of schedule and the initially modest production levels are anticipated to increase steadily throughout 2012. The company also noted that as the host rock and ore zones continue to be understood, in the short term, mining will continue to be undertaken using a combination of room and pillar, and bulk methods, with a view to optimising the project procedures as a means of keeping a close eye on production costs.

The Sekisovskoye operation itself is based upon a long term production target of circa 850,000t pa, which equates to roughly 100,000 oz per annum. It is currently expected that this will be reached by 2017 and initiating underground mining is a significant development on the road to ramping up the project's production output. However, news of the tailing dam lining rupture (which will have caused November 2011's output to be down by 500 ounces) and the subsequent announcement on 29 December 2011 that the company is likely to be fined circa £1.17 million (charged in the period ending 31 December 2011) has overshadowed the milestone event. Hambledon is currently appealing against the fine and is confident that the figure will subsequently be reduced.

Currently capitalised at £25.09 million (3.375p), having adjusted our DCF valuation for the aforementioned fine and slight fall in production, we continue to believe that Hambledon is worth at least 10p a share based on the potential of the Sekisovskoye project. We do however believe that the more recent country specific events have had an adverse impact on the company's valuation lately.

Kazakhstan sits on a vast amount of oil, and like many developing economies, the spread of respective wealth derived from the country's natural resources is not always equal. On 16 December 2011, in the West of the country, at the site of what began as a peaceful oil worker strike (this issue has been ongoing affecting a number of the country's oil company's), demonstrations turned violent, with some reports stating that up to 50 people were killed. It is clear that this unrest, and the related worker striking, is an issue for the country and given that midterm parliamentary elections are due to take place early this

month, there is clearly some short term systematic risk here.

However, in the medium to long term, we do not believe that this materially impacts the investment case here as projects such as Sekisovskoye are well within the best interests of the country as a whole. Furthermore, the World Bank recently noted that Sekisovskoye was the 47th best/easiest country to do business in (only 3 spots below Spain, and numerous above the typical countries in Africa with Gold operations) and we continue to hold, with a view to seeing value realised here as the company ramps up its production to the targeted 100,000 ounces.

Irish Gold explorer **Conroy Gold and Natural Resources** said on 16 December 2011 that following work undertaken by Tetra Tech Wardrop Engineering, it has increased its Resource at the Clontibret project to over 600,000 ounces of Gold, and that now over 43% of the total resource is firmly within the Indicated category. The updated study serves to further enhance the economics of the project; with the mine life increasing 55.5% to 11.2 years, and Gold in situ expected to average over 50,000 ounces per annum for the first five years of the mine's life. The new model illustrates that a significantly higher level of material will be processed (210% jump to 8,980 kt), and that the respective stripping ratio will be pulled in by 20%, from 11.8 to 9.4. Furthermore, the anticipated production rate has doubled, and although capital costs will be subsequently increased to \$77.8 million, the payback period has been more than slashed in half, to two years.

The current, in house, project valuation is based on a pre-tax financial model incorporating a long term gold price of USD1,372 per ounce, which we view as pretty undemanding. However, the model suggests that assuming an eight percent discount rate, the current NPV of the project is \$72.3 million (£46.8 million), or 18p a share. At 3.75p, Conroy is currently capitalised at £9.4 million, so there is clearly a material disconnect between the economic value of the company's Gold project and the company's equity. There is evidently the short term financing, and subsequent dilution risk, which is typically associated with significant mine development works of this type, but this would be more than discounted at double the current market price.

Looking ahead to the actual construction and mine development itself; speaking at the company's annual meeting on 21 December 2011, Chairman Prof Conroy noted that the Conroy may be in the position to apply for planning permission as early as late this year. Once the respective environmental impact and feasibility studies have been completed, which taking into account peer group time scales – this should not take longer than another 12 months, the company will be able to apply for planning permission and simultaneously, mining licenses. On the same day as the AGM it was also announced that both Prof Conroy, and MD Maureen Jones, picked up shares in the market, with Conroy acquiring 25,000 shares shy of a million, at a blended price of 3.2p. His ownership of the company now sits at 23.19%.

Conroy himself has a long history in the mineral exploration and asset development business, having discovered the Galmoy zinc deposit in Co Kilkenny back in the 80s, which subsequently helped Ireland to become one of Europe's biggest zinc producers and a serious base metal player. The country now accounts for 40% of total production in the EU, and according to the United States Geological Survey was the 10th largest Zinc producer in the World at the end of 2009. In regard to Gold, the yellow metal has been known to be in

existence in Ireland for more than 2,000 years and with world production declining, having reached a peak of 2,600 tonnes in 2011, new projects will be increasingly valuable especially away from the typically harsher operating environments of Africa. We believe that given the declining production across the Globe, a new, potentially vast, Gold development (Conroy has, among other targets, its developing Clay Lake project, which could feed into production out of Clontibret) along the company's 50 km strike, in a politically stable country, would be particularly sought after.

Admittedly production out of Clontibret is at least 18 months out, but given the developing economics of the project, the clear upside and the solid management, the current share price is derisory. There is minimal political risk here when compared to more unstable territories and we therefore believe that the current material gap between the company's flagship project NPV and share price to be completely unjustified.

James Faulkner - Equity Analyst

Risk Warning

The value of your investment can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not a reliable indicator of future results. If you are in any doubt as to the suitability of an investment, you should seek independent financial advice. * Please remember that the tax treatment depends on the individual circumstances of each investor and may be subject to change in the future.

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