

Newsletter - Issue 35, February 2012

By Ross Jones & Tom Winnifrith



A Good start...

Gold has had a bumper start to the year. The metal is currently trading at \$1759, (11:00 3/2/12), and we are happy to note that for a good part; Gold stocks have started to come alive. A mixture of positive operational updates, and a strong spot market (following the Federal Reserve's clear indication that it will review its asset purchases in the first half of this year and maintain low rates until at least 2014), has provided the perfect backdrop for the Fund to break into the new year – since 1st January 2012 we are ahead by 8.8% (2/2/12). Clearly this performance is no guarantee of the future returns of the Fund but we are none the less cheered by the move ahead.

Looking back to last year; total gold demand climbed by 6% yoy to 1,054 tonnes in 3Q11 and totalled 2,966t through Jan – Sept. Most importantly investment demand jumped 33% yoy to 468t, highlighting the increasing desire to hold Gold as a safe haven asset. As this demand intensifies due to the lure of Gold as a store of wealth (given the potential further debasement of the market value of the Dollar) we believe that there is going to be an increasingly severe squeeze on the supply side due to, amongst other factors, new gold mine discovery lead times ranging between 2 – 3 years and 15+ years. Furthermore, global average head grades continue to falter and it is becoming increasingly expensive for producers looking to push deeper underground to reach higher quality grades.

We are therefore not surprised that we are noticing an uptick in the amount of M&A activity, with our portfolio actually seeing a fair bit over the last couple of weeks. A number of holdings have actually made moves to pick up new assets to build their production profiles which we believe makes them even more attractive to large players looking to immediately add 100 – 200,000 ounces to their output. The deals within our portfolio have, we believe, been executed at a good price and in the case of Cluff Gold & Pan African Resources especially, will be rapidly earnings accretive.

In regard to wider investment spending on Gold (where we believe the real drive forward will come from) as at January 2012, official world holdings came in at 30,789t. China, now a serious buyer, holds only 1.8% of its reserves in Gold and it really would not take much of a move to hit the market in a material way. Assuming that China simply moved its holdings back to 2.2% of total reserves, as per Q4 2002 (highest recorded), the market would be squeezed by more than 500t – more than a fifth of annual production! Given the intention of the US to inflate its way out of its debt we believe that China, and other US creditors, are likely to look to diversify out of at least some of their Dollar denominated debt positions.

In regard to the most recent move up in the price of Gold, we believe that there is a lot more depth than just speculation by traders. The significant fall from \$1920/oz back in 2011 was, for the main part, a result of long liquidation and knock on margin calls in regard to CME futures traders but according to the Commitments of Traders, futures traders, as of 27.1.12, are now net long of just c126,000 contracts (c400,000 tonnes) – not even half of what has been previously seen.

Speculators long gold		Latest Week	
Net position of managed money in gold futures and options			
Longs	138,142	+8,238	
Shorts	11,205	-1,721	
Net	126,937	+9,959	
OI	663,855	-3,693	

Thousands — Net Position — Open Interest



In terms of the underlying holdings, the fund itself has been a hive of activity recently with plenty of strong operational news being released to the market. We have also, over the last trading week, bought a lot more of what we already own as we continue to see good value across our portfolio – amongst our buys have been: Minera IRL, Vatukoula, Ascot, Ariana, Cluff, Conroy Gold, and Archipelago. With Gold trading at \$1759, we believe that all of the companies that we believe are cheap at \$1,400/\$1,500 Gold (in terms of FCFE and an EV/Resource) look more and more attractive – the producers are throwing off increased amounts of cash and the resources of the near term producers/explorers are becoming increasingly valuable. As we move towards, what we believe will be \$2,000/oz in 2012, we take the view that the market will have to begin to more efficiently price the underlying companies producing the yellow stuff and believe we are well placed to benefit.

Our Report

As we noted in the editorial the recent weeks have seen multiple news announcements from a good deal of our holdings. Over the last 6 - 9 months we have built a position in Cluff Gold, having more recently taken advantage of the short term change in sentiment towards the company's operating environment to pick up stock even more cheaply (mid 70s/80s), and not without good reason. Dual listed (TSX and AIM) Cluff announced on 3rd February that it was set to buy Orezone Gold's Segal Gold project for \$30.5 million, payable half in cash and half in shares. The asset itself comprises an indicated gold resource of 450,366 oz and an inferred resource of 147,344 - equating to a purchase price of \$51 per resource oz - strip out the lower confidence ounces and Cluff paid c\$67/oz for an asset that can be easily bolted on to its Kalsaka plant, located just 20km away.

The deal is set to allow Cluff to materially increase the mine life at its Kalsaka operation with what will be limited up front capex of \$8 million. The spend will be related to a new crushing plant, leach pads, an access road, etc. Previously executed studies have indicated average heap leach recoveries of 85% for oxide and transitional ore, and we reckon, following the completion of title transfer (which could, worst case, take up to twelve months), the new operation will be earnings accretive almost straight away.

The key take away from the conference call following the announcement is that this bolt on operation will materially enhance the company's primary operation and will provide Cluff with increased cash flow as it continues towards the development of its Baomahun project. The fact that Segal lies within 'trucking' distance of Kalsaka is key to the deal. In addition to the almost immediate production a further 10,000 metre RC drill programme has been kicked off on site with the aim of defining additional oxide resources. We understand that the Due Diligence on this acquisition began back in 2008 and reckon that delineating further ounces is likely given the fact that Cluff has gone ahead and acquired Segal.

The acquisition comes closely behind the company announcing some promising sulphide drill results out of its Yaoure project (Cote d'Ivoire - previously known as the Angovia Project), which included 28.35 metres at 3.24g/t. But for us, and most investors here, it is the road towards the Baomahun mine producing 135,000 ounces per annum that is key. Production at the soon to be flagship mine will see Cluff produce at least an annualised 200,000 ounces (at least 70,000 from Kalsaka, and 130,000+ from Baomahun) at what should be blended costs of \$650/oz. Assuming a Gold price of \$1,600 this should deliver annualised cash flow of \$190 million, or cGBP117 million (more or less the current market cap at 91.125p) - discounted at 10%, and allowing for taxes, and royalties, this equates to GBP90.4 million. At three times cash flow we therefore cannot see how Cluff is worth less than 205p - and this assumes just 3 times cash flow, bottom of the range production numbers, and a relatively prudent projected Gold price.

A further company that has been involved in M&A activity recently is Pan African Resources. On 30 January 2012 the South African focused miner announced a 50/50 joint venture with 'Wits Gold' to acquire Evander Gold Mines Ltd for up to GBP139 million - circa three times cash flow. Located in SA the acquired asset boasts a sizeable underground resource comprising 147 million tonnes at 6.88g/t, for 32.5 million ounces, with the Evander 8 shaft itself having an initial mine life of more than ten years.

As a means of funding the acquisition, circa GBP24.5 million will be needed from cash, borrowings or equity. However, given Pan African's balance sheet strength and the fact that it recently noted that its earnings for the 6 months ended 31 December 2011 will be between 83% and 93% higher than a year earlier (0.53p), we do not believe the company will have an issue raising the cash. Looking at the production capabilities of the asset itself, in the three months to 30 September 2011 Evander produced 27,457 ounces of Gold at a cost per ounce of c\$900.

The acquisition is a real game changer for the company as such a sizeable resource makes the current market cap, at 17.5p, of GBP252 million, seem pretty undemanding. Furthermore, Pan African is now set to increase its production by almost 50%, from 95,000 to 140,000 at what we expect to be a blended price per ounce of \$900. The one downside here is that the acquisition is likely to mean some debt added to the balance sheet but in the greater scheme of things we believe that the enhanced production profile will more than compensate for the debt position. Add in the company's producing Phoenix Platinum project and the other assets and at 17.5p Pan African does not look expensive given what is now a new growth phase for the company.

On top of the busy M&A activity in the portfolio, on 30 January 2011, another favourite, Shanta announced a set of solid drill hole results at its Bauhinia Creek orebody - an outpost deposit at the New Luika Project. The results were pretty spectacular with 31 metres at 12.97g/t and 10 metres at 26.9g/t being reported. As a result the company noted that the mining plan will show an increase in mineable strike length, along with an increase in both production ounces and grades. The market liked the news, given that it is likely to have a material effect on the New Luika Gold mine resource which is set to be announced at the end of April.

In addition to the quality drill results the company also confirmed a \$15 million funding facility which was no surprise given Shanta had commented on this back in 2011. Over the past month the shares, which currently trade at 31.75p, (market cap of GBP86 million) have had a good run but with the most recent drill results coming in so strong (which are likely to alter the economics of the project) and not forgetting the company's Singida project we struggle to see how the shares are not worth 50p in the short term. We were 'in' here at a blended 20p, and continue to hold.

Ross Jones - Equity Analyst & Tom Winniffrith - Fund Manager

You can download the application form from [here](#) and the simplified prospectus from [here](#). If you have any questions please contact Ross Jones on 01624 641 308 or email goldfund@t1psim.com.

Fund Information

Size:	GBP19,397,484.95 (03/02/12)
Launch date:	24 July 2009
Launch price:	GBP1.00
Current Yield:	0.00%
Legal Status:	OEIC
Annual Management Fee:	1.5%
Initial Charge:	5.25%
Minimum lump sum Investment:	GBP500.00
Minimum monthly investment:	GBP25.00
SEDOL code:	B3YQ855
Unit offer price:	Single Priced Fund Last Dealt Price: 153.39p (03/02/12)
Unit bid price:	As Above

Top 10 Holdings

Stock Name	Fund %
Ariana Resources	9.02
Ascot Mining	6.49
Hambledon Mining Plc	5.64
Vatukoula Gold Mines	5.23
Conroy Gold	4.18
Norseman Gold	3.80
Cluff Gold	3.54
Shanta Gold	2.98
Ovoca Gold	2.90

Benchmarking

Total return, bid to bid line chart from 11/09/2009 to 03/02/2012 from UKUT and OEICs Universe



Cumulative Performance 03/02/2012

	1m	3m	6m	1y
SF T1ps Smaller Companies Gold Fund	8.9	1.7	-17.0	-28.4
IMA Specialist	7.8	3.3	-1.7	-5.0

Discrete Performance 03/02/2012

	0-12m	12-24m	24 - start
SF T1ps Smaller Companies Gold Fund	-28.4	98.4	6.8
IMA Specialist	-5.0	15.9	37.3

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 Ross Jones on 01624 641 308 or ross.jones@t1psim.com and he 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 GBP500) you can set up a monthly standing order with The Share Centre to drip feed further cash (as little as GBP25 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](#).

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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