

# SF t1ps Smaller Companies **Gold** Fund

## **Newsletter Special - Issue 34, January 2012**

### **Fed News - By Ross Jones & Tom Winnifrith**

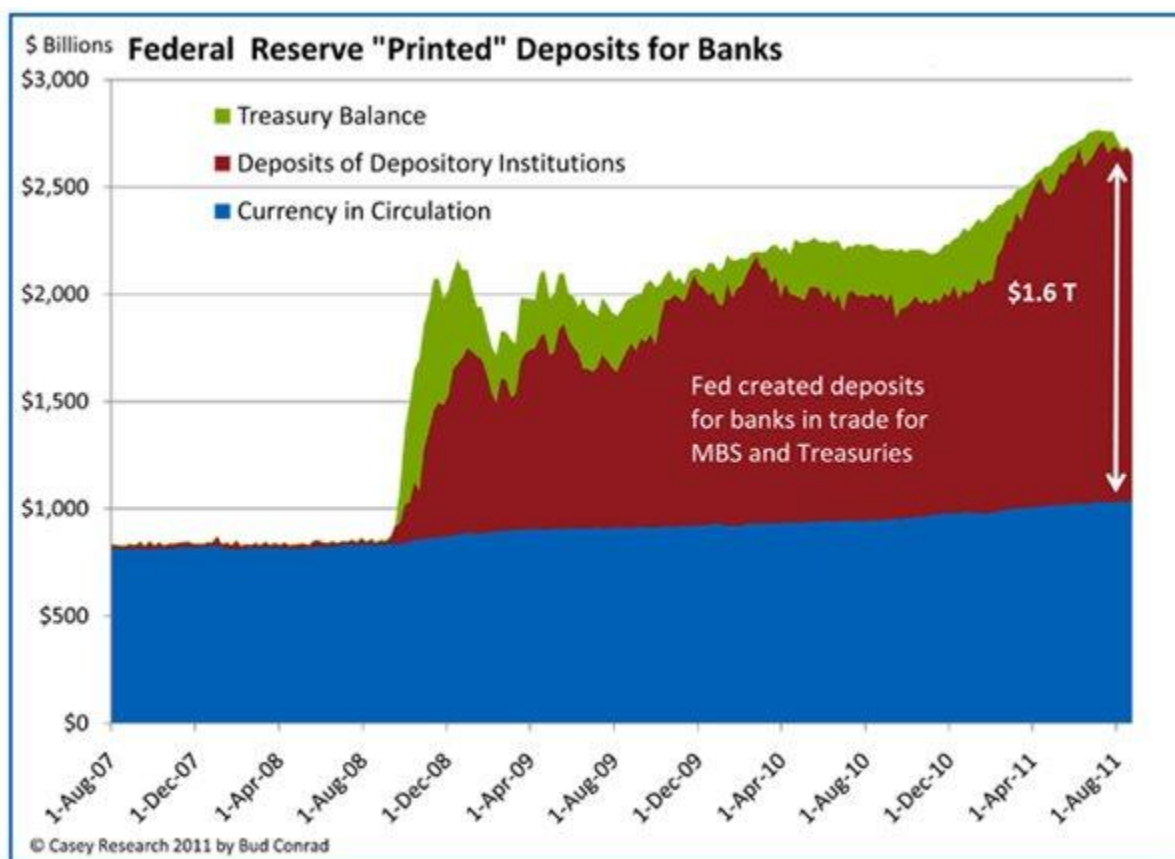


Uber-dovish comments from the Fed have in the past had a material impact on both Equity markets and the Gold market in general – Ben Bernanke's comments on 25th January were no different. The Fed had previously said that it had expected the period of seriously low interest rates to last until mid 2013 but following the most recent comments this is likely to now be extended until at least 2014. Bernanke noted that 'there is a case for additional policy action' which is quite clearly a nod towards further asset purchases, aka, a third round of what is commonly known as quantitative easing (QE).

Right now the Fed is actually stating that there is the potential for inflation to fall below its 2% target. But with increasing amounts of fresh liquidity likely to be pumped into the system (on top of the funds currently held up within financial institutions) we, as monetarists, believe that there is material inflation to come as a result of this loose monetary policy. And

this inflation will be exported around the globe, assisted by further QE in the UK and Europe and also by a loosening of monetary policy in India and China.

Early estimates are that any potential purchases will be in the region of \$700 billion, but our view is that it will be more like \$1.5 trillion if we base our assumptions on past purchases and respective impacts on yields. In light of this, it is our view that the only way that the Fed can guarantee that rates will be kept low until 2014 is through continued purchases of Treasuries as a means of keeping a top on rates.



Currently the Fed does not seem to think that inflation is an issue, and in the short term believes it may miss its 2% target on the downside. We however disagree, and given the movement in the price of Gold we are not the only group of investors that believe this. Furthermore, it is also now likely that the Bank of England will ease further in the medium term which, when added to the fact that the ECB has recently disclosed how far its balance sheet has been expanded (and how much more it needs to), provides real support to the Gold bull case.

Bearing this in mind – over the last trading session we have noticed life coming back into the smaller cap miners with a number of names up 5%, 6% and 7% (as at 27/01/2012) - notably Shanta, Cluff, Hambledon, Orosur, and Vatukoula. Clearly past performance is no guarantee of future returns. But we see real reasons for optimism – we believe the price cashflow/metrics are just so attractive. The existence of ETFs does however clearly give investors an opportunity to gain exposure to the Gold price, but given the clear benefits of

operational gearing, it is the underlying companies that will be throwing off increased cash flows and that will see their respective resources worth more to predators, of which 30% have now said they are actively looking to deploy cash through acquisitions.

But despite some small cap equities showing life there are still some serious derisory valuations across the market – we have highlighted two case in points (one being even more attractive following a delay in its production kick off timeline) below where we believe the current valuation goes no way to reflect the present value of the future cash flows of the company's projects and value of underling resources.

**Ross Jones - Equity Analyst & Tom Winnifrith - 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](mailto:goldfund@t1psim.com).

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## Fund Information

<b>Size:</b>	£18,225,325.26 (26/01/12)
<b>Launch date:</b>	24 July 2009
<b>Launch price:</b>	£1.00
<b>Current Yield:</b>	0.00%
<b>Legal Status:</b>	OEIC
<b>Annual Management Fee:</b>	1.5%
<b>Initial Charge:</b>	5.25%
<b>Minimum lump sum Investment:</b>	£500.00
<b>Minimum monthly investment:</b>	£25.00
<b>SEDOL code:</b>	B3YQ855
<b>Unit offer price:</b>	Single Priced Fund Last Dealt Price: 144.47p (26/01/12)
<b>Unit bid price:</b>	As Above

## Top 10 Holdings

Stock Name	Fund %
Ariana Resources	7
Hambledon Mining Plc	6.08
Vatukoula Gold Mines	5.92
Ascot Mining	4.95
Cluff Gold	4.79
Conroy Gold	4.64
Norseman Gold	3.43
Sovereign Mines	3.38
Shanta Gold	3.29
First Majestic	3.07

## Benchmarking

Total return, bid to bid line chart from 11/09/2009 to 26/01/2012 from UKUT and OEICs Universe



## Cumulative Performance 25/01/2012

	1m	3m	6m	1y	2y	Since inception
SF T1ps Smaller Companies Gold Fund	4.52	-4.14	-24.76	-37.05	29.31	43.40
IMA Specialist	6.5	3.3	-7.6	-8.8	8.21	17.78

## Discrete Performance 25/01/2012

	0-12m	12-24m	24 - start
SF T1ps Smaller Companies Gold Fund	-37.05	105.41	10.90
IMA Specialist	-8.8	18.6	32.16

**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**

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## How To Buy Gold Fund Units

1. You can deal through [www.JPJShare.com](http://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](mailto:goldfund@t1psim.com) or go to [www.t1psim.com](http://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](http://www.t1psim.com) or email [goldfund@t1psim.com](mailto:goldfund@t1psim.com).

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## Company News - By James Faulkner



First comes **Ariana Resources**, the Turkey focused Junior mine developer – one of our favourite picks. On 26th January 2012 the company updated the market on developments in regard to its Red Rabbit project and interim financing. The key thing of note is that due to a longer than expected licensing procurement period, first production is now projected for 2013, as opposed to the late 2012 timeframe that was previously provided as guidance. The delay itself pertains to the Tailings Storage Facility design and engineering plans which, following regulation change in the first half of 2011, now need to be undertaken by a Turkish company with respective environmental accreditation. The delay is a result of the need for additional geotechnical and hydrological drilling in the designated area of the TSF. It is our understanding that the delay is a result of a slower than expected uptake of new regulations, but we do believe that these licenses will be pushed through with the above drilling likely to take place in the short term.

It is our view that the project Feasibility study is pretty much complete with the exclusion of the above, and expect it to be released to the market by, at the latest, the end of the second quarter of this year. This should subsequently pave the way for construction to begin by Q4 2012 with a view to production being kicked off by mid 2Q13.

The delay of what now looks to be circa 6 months is clearly disappointing, but in the long run is not as material as one might think when looking at the reaction of the stock price following the move – down c20% to 3.75p, capitalising the company at £9.73 million. The fact remains that by mid 2Q13 Ariana will be laying claim to 50% of an annualised 20,000 ounces (which has every likelihood of being upped to 25 – 30,000 ounces given the surrounding exploration upside) of Gold, which at \$1,650 Gold and \$550 costs per ounce, sees £7.2 million of free cash fall through to Ariana. Given the fact that there is still likely to be some dilution here and debt costs to fund the capital expenditure of the project, discounting the one year cash flow is prudent. Discounted at 10% and assuming a multiple of 5 times projected cash flow sees Red Rabbit worth £32.7 million or 12.5p per share as it stands.

Add in the Tigris Resources interest (which should IPO next year) and the company's potentially lucrative JV with European Goldfields (where drilling last year, all funded by EG, yielded decent results) and it is extremely difficult to see Ariana being worth anything less than 15p a share. This however does not take into account the potential for production increases moving forward, an increased Gold price, and the fact that as we move closer to production the project materially 'derisks'. Our view is that the shares are a strong buy at up to 5.5p.

**Chaarat Gold** is a further company where we are currently seeing a wide gap between the respective share price and the value of the underlying project. Located in Kyrgyzstan, the Chaarat Gold Project is expected to ramp up to a mid-sized project in three stages. The first stage will process, for the main part, ore that has a low sulphur content through an open pit operation at an expected, annualised, output rate of 35,000 ounces of Gold per annum – this milestone is expected to be reached by April 2013 and is fully funded. The second stage is expected to more than double output through the use of underground mining, which will allow the operation to reach far higher grades. At this stage the plant itself will incorporate an oxidation unit to maximise output. Moving ahead to the third stage, which should be fully developed by 2015, the company is expecting to produce up to 180,000 ounces per annum, with additional upside potential.

But at 23.5p the company is capitalised at just £58.75 million, which is just slightly more than the cash position as at 30 June 2011. However, this will clearly be lowered to some extent now due to construction etc, but shares trading at this level, when compared to cash, would usually be typical of a relatively high risk exploration company, not a company that should be cash generative in just over a year's time.

We believe one of the main issues currently placing pressure on the share price is concern surrounding country specific risk. There has over the past six months been adverse news flow out of the country in regard to the country's politics, violence towards striking workers, labour unrest and more recently, and not exactly related, prisoner riots and protests. But following discussions with management we remain of the view that developing projects such as the Chaarat Gold Project are well within the best interests of the country and with construction progressing well we are relatively positive. There is however likely to be a potential 'shake up' in the future in regard to mining licenses in the country moving forward and in addition there is also the potential for the implementation of a 2% surcharge. But in the grand scheme of things, the above are not material.

By April 2013 the Chaarat Gold project should be throwing off £21 million (\$1,650 Au, \$650 cash costs, 35,000 ounces), which on a multiple of 4, sees Chaarat valued at £84 million, or 33.5p per share. We view the shares as cheap based on the cash backing and stage one output but assuming production is ramped up to 60,000 ounces by April 2014, this sees Chaarat worth, based on four times projected, discounted at 8% cash flow, 55p a share. Full stage three output sees the shares worth up to £1, assuming the same inputs as above.

There is clear risk here pertaining the political back drop, etc, but given the material upside we view the risk/reward play off as very attractive and have recently bought more stock.

**James Faulkner - Equity Analyst**

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## **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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