

The February Newsletter from the SF t1ps Smaller Companies Gold Fund on UK-Analyst.com

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SF t1ps Smaller Companies Gold Fund

Newsletter - Issue 19 February 2011

Denial, Denial, Up De Nile without a paddle

The past month has been an interesting one for the gold price. It has been one throughout which the US administration has used every possible opportunity (even a rare Q & A with Ben Bernanke himself) as an attempt to comfort us with skewed statistics regarding perceived economic recovery or some other form of data as a distraction from reality. In the real world the rest of us are seriously beginning to feel the effects of the US expansionist monetary policy and it will not, beyond reasonable doubt, be long before the US itself experiences the effects of its cavalier policies (that is if it is not already?). Regardless of the rhetoric, Quantitative Easing is still not working. Unemployment remains stubbornly high (at 1930s levels) and inflation, despite what the US administration argues, is here. We have seen forecast smashing price pressures in the UK and China, and to a much greater extent in the Middle East which has led to some seriously disturbing events. We are all aware what has been occurring across the Med and one of the main underlying issues causing such ingrained discontent is static low wages coupled with a continually rising price of basic foodstuffs.

But what does this mean for Gold and your Fund? Well, January has been a slow month for the Fund with the price of Gold itself slipping to, at its lowest, around \$1,315 (having recovered to c\$1,350 as of now), but the real fundamental issues that we discuss month after month really are now crystallising. Gold still is the only currency available that will not see its real value continue to diminish. Inflation cannot be played down for too much longer, at a personal level we are all already feeling it, and it is likely to continue, indeed to accelerate. A good indicator is the UN Food and Agriculture Index which has over the past two months alone increased by 12%! The simple explanation is that huge amounts of artificial money have been pumped into the financial system by the US Fed as a means of recapitalisation which, in theory, would increase lending, which was hoped would in turn increase the level of jobs, and subsequently tax income, and so on. This as we know has failed to work efficiently with the most recent US non-farm payroll data again failing to meet expectations. Despite this hot money chasing limited goods, the Fed will however press on!

At some point however lenders will push, without doubt, for an interest rate hike as a means of compensation for the loss of real value that inflation is causing. The last thing that the US wants right now is to attempt to finance its almost crippling deficit with an increased interest rate. It is manageable at these historic low levels for the time being but this is an unsustainable strategy. We have already seen Japan's Credit Rating take a bashing. Who will be next?

In the time being as inflation continues to whittle away at the real purchasing power of your money, the question you simply need to ask yourself is where can I store my wealth to preserve its value? Gold and Silver as direct investments are one thing, they both in general outperformed the majority of asset classes last year, but our speciality is small to medium sized Gold and Silver producers, and explorers, which hugely benefit, through operational gearing, at times of rising Gold and Silver prices. This is where we would suggest money be placed to ward off inflation. In light of this last year the fund returned 127% to its unit holders, outperforming its competitors by almost double and comfortably outperforming the appreciation of the precious metals themselves (Financial Express: 31.12.10). Whilst we are feeling comfortable with how we are building our portfolio, we do however know that past performance is not a reliable indicator of future results, and at this point would very kindly like to draw your attention to the important risk warning at the bottom of the page

Looking forward, we are confident that Gold at some point will move back through the \$1,400 threshold and beyond. We cannot say when this will happen or what the trigger will be, but until that time we are happy to take advantage of the current unpopularity of a number of Gold stocks. Mr Market has been offering some real bargains this month and we have been adding to our positions in **Vatukoula**, **Norseman Gold**, **Ariana**, **Angel Mining**, whilst also taking part in the **Athol Gold** placing following the NAV announcement which saw an appreciation of 180% over three months. We do not expect to be able to buy in at bargain levels for long and so are busily gorging on a daily basis right now. We look forward to updating you as we see the fruits of that strategy start to deliver big gains in NAV and in your wealth during the coming weeks and months.

Robert Sutherland-Smith & Ross Jones

If you have any questions about investing in the SF t1ps Smaller Companies Gold Fund or if you want a simplified prospectus and an application form please visit our website at www.t1psim.com or email goldfund@t1psim.com

Total return, bid to bid line chart from 03/02/2010 to 03/02/2011 from UKUT and OEICs Universe



	1m	3m	6m	1y	3y	5y
SF t1ps Smaller Companies Gold Fund	-6.2	+36.0	+104.1	+110.8	n/a	n/a
Specialist	-1.5	+2.6	+11.1	+14.7	+18.1	+31.0

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. Contact your broker. Most brokers offer the chance to buy units although few can match our initial rate of 2.5%. But call your broker and give him the fund's SEDOL code: **B3 YQ 855**. If your broker will not deal please call Spiros Kurtidis on 0207 562 3386 and he will try to rectify the situation.

2. Deal 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

3. 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 contact 0207 562 3386

Fund Information

Size:	£22,218,620.00 (04/02/11)
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 Number:	B3YQ855
Unit offer price:	Single Priced Fund Last Dealt Price: 230.06p (04/02/11)
Unit bid price:	As Above

Top 10 Holdings

Stock Name	Fund %
Vatukoula Gold Mines	8.82
Hambledon Mining	6.27
Great Panther Silver	6.16
Athol Gold Ltd	4.45
Norseman Gold	4.29
Angel Mining	4.15
Ascot Mining	3.94
First Majestic Silver	3.80
Ascot Mining Warrants	3.49
Jubilee Platinum	3.22

The Deadline is April 5th to shelter this year's gains from tax - do not miss out on your allowance!

What we are talking about are ISAs - a wrapper to protect your savings from capital gains tax *. You have until April 5th this year to use up your ISA allowance. You also have until the same day to use your annual SIPP contribution allowance.

We hope that you will use your ISA allowance buying shares in the SF t1ps Smaller Companies Gold Fund.

But whatever you use it for - use it. Don't lose it.

An ISA is not an investment. It is a shelter in which you can stick investments to avoid Capital Gains Tax. You can stick in £10,200 this

year. As such it is an ideal wrapper for those investments where you might expect capital growth such as the SF t1ps Smaller Companies Gold Fund. It really should be the cornerstone of EVERYONE's portfolio. Even so, around two-thirds of consumers are not planning to make use of this valuable tax break. **Don't be one of them.**

Are ISAs right for me?

Stocks & Shares ISAs involve taking higher risks (as investments can fall in value) however over the longer term they should have the potential to produce higher returns. This tax year you will be able to invest up to £10,200 in a Stocks and Shares ISA. Please remember that the tax treatment depends on the individual circumstances of each investor and may be subject to change in the future.

So whatever you actually use your ISA allowance on you SHOULD USE IT and time is running out. Naturally we hope that you invest your ISA in shares of the SF t1ps Smaller Companies Gold Fund - remember to take advice if you're unsure whether these are suitable for you.

If you have any questions about investing in an ISA in the SF t1ps Smaller Companies Gold Fund email goldfund@t1psim.com or call 020 7562 3386.

Into battle...

On 31st January **Norseman Gold**, the AIM listed Western Australian focused gold miner and explorer reported what seemed from an initial glance to be a set of disappointing results for the 3 month period ended 31 December 2010. The key however, much like **Vatukoula Gold Mines** (detailed again below) is to read between the lines at this point and identify the underlying future potential being built here.

Superficially, the company reported markedly lowered production output for the period of 11,162oz of Gold at a much inflated cash cost per ounce of A\$1,242 which equated to an EBIT loss for the period of A\$5.4 million. Unsurprisingly following the news short termists caused the market valuation of the company to take a tumble leaving the company currently capitalised at £107.7 million. We were not surprised. What we expect was missed by the 'herd' was that over the past 3 quarters the company has been investing heavily in its future, highlighted by A\$14.6 million (£9 million) in the period just passed. Gold mining is not a simple process and there are of course going to be short term blips in production along the road to reaching total output capacity, which is for Norseman expected to be close to 140,000 per annum.

Much higher grade ore is due to come on line from OK Decline and the North Royal Open Pit from now moving forward as the company pushes on with its 'fill the mill' strategy which will, according to management forecasts see the company producing around 12,000 ounces of Gold a month. At over 8,000 ounces per month cash costs fall to A\$600/oz. So if we assume that by June the company is producing say 10,000 ounces (allowing a margin of error) the undervalued nature of Norseman becomes quite apparent.

Assuming a \$1,300 Gold price (we think it will be higher) and cash costs per ounce of A\$600 (quite possibly less) this equates to free cash flow per month of \$7 million, implying annualised free cash of \$84 million, or £53 million. Currently valued at just over two times forecast cash flow Norseman is without doubt, at these prices evidently very good value and explains why we have been buying up a good deal of shares from Mr Market. There may have also been some worry that the most recent bad weather in Australia having possibly created some issues for the company. We are however told that mining has had no issues at all with the bad weather focused on completely the other side of the country (4,000km away). We are relaxed.

As with Norseman Gold and as detailed in the Editorial we have also been buying up a good amount of Turkey focused Gold explorer and soon to be producer **Ariana Resources**. This is also for good reason. The company is focused upon the exploration and development of epithermal Gold-Silver deposits in Turkey, and boasts a number of prospective license areas with a notable JV in the North East of the country with European Goldfields. Ariana operates an attractive dual strategy of developing profitable mining operations whilst furthering resource developments across its other projects. Of most importance however is the company's flagship Red Rabbit venture. The two principle Red Rabbit prospects identified, Tavsan and Kiziltepe, are located within a prolific district of mineralisation and it is the company's aim to fast track this asset into production by the middle of 2012.

The initial focus is the Kiziltepe sector which is expected to produce Gold at an annualised rate of 30,000 ounces by middle 2012. We expect that cash costs at this point will be roughly \$400 per ounce. Assuming a \$1,300 Gold price this equates to annualised free cash flow of \$27 million, or £17.5 million. Currently Ariana's claim here is £8.75 million. The market cap of the company is £8.8 million. This quite frankly speaks for itself. Like early stage mine development companies there is evidently a degree of risk involved here but we believe that to be more than discounted in the price and comfortably justified as to why we have continued to buy in the Market at these prices.

A further miner that has continued to be unloved over the past month is AIM's **Vatukoula Gold Mines**. We have consistently commented on Vatukoula via an updates in newsletters and an piece that appeared on t1ps.com (in our last newsletter to investors), but the underlying fundamental investment justification still remains. We have continued to add to our position as this madness will without doubt not continue forever.

Currently capitalised at £146 million, the market value of the company has in fact recovered slightly after an admittedly disappointing set of quarterly results. Regardless however of where the price is today, Vatukoula on less than a year's view remains very cheap. This is another example panic short termers selling. However, by the end of the year the company will be producing Gold at a rate of 100,000 ounces a year with cash costs of \$655 per ounce. The mine life is estimated to be 12 years (we reckon this is prudent) and using a simple DCF valuation with a 10% discount rate, assuming a \$1,300 Gold price, this implies a circa 360p share price, or circa 100% upside from here. Further upside from here is the fact our valuation is based upon an average Gold grade 6.5g/t, this could by all means be increased to around the 7.5g/t mark quite easily, which will add a further circa 160p to the valuation. As you can see at these current prices Vatukoula offers incredibly good value. This is not to mention the fact that we reckon Gold will push materially higher which in this case you can add a further 40p per \$100 increase in the Gold price to our target. We remain strong buyers.

Finally, an update on our newest investment, TSX listed **Kootenay Gold**. As our unit holders know, we rarely invest in new holdings in the Fund, and only ever do where we see real upside potential, couple with great value. Kootenay provides that, plus as the name suggests, a great deal of exposure to the less liquid and smaller Silver market.

As detailed in last month's silvery newsletter Kootenay is actively developing mineral projects in the Sierra Madre region of Mexico (a highly prospective Silver region) and a number of license areas in British Columbia, Canada. The company's flagship project is the former producing Promontorio Silver mine in Sonora State Mexico which already boasts a NI 43-101 compliant resource of just over 10 million ounces of Silver (plus 112.7m lbs of lead and 125.1m lbs of Zinc). However, as of 3 February 2011 the company updated the market in regards to its continuing 10,000 metre drill programme which it is currently undertaking on its flag ship project. The aim is to dramatically expand the current 10 million ounce NI 43-101 resource and it seems the company is doing just that.

All 15 of the company's most recent drill holes intersected consistent Silver grades over a wide spread area of mineralisation extending outside of the company's already large delineated resource. Most notably Silver values as high as 149g/t and 108g/t over 10.5 metres and 16.5 metres respectively were reported. It is clear that the current NI43-101 is significantly underwhelming and in light of this the company has already mobilised a second drill rig to now test the deposit at depth.

So, a few weeks on from having added Kootenay to our portfolio it is safe to say that we are happy with the rarity that is a new addition. We would not be surprised to see even more positive news reported to the market over the next quarter and almost without doubt an upgrade NI43-101 compliant 10 million ounce resource. We are patient (but excited!) holders.

Ross Jones and James Faulkner

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