Junior Gold

Short Report

For the period from 1st September 2013 to 28th February 2014

MARLBOROUGH
Fund Managers Limited

Fund Details
Junior Gold

Registered Office
Marlborough House
59 Chorley New Road
Bolton BL1 4QP

Authorised Corporate Director and Registrar
Marlborough Fund Managers Ltd
Marlborough House
59 Chorley New Road
Bolton BL1 4QP

Customer Support: 0808 145 2500 (FREEPHONE)

Authorised and regulated by the Financial Conduct Authority

Depositary
HSBC Bank plc
8 Canada Square
London E14 5HQ

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority

Investment Adviser
Sector Investment Managers Limited
67 Grosvenor Street
London
W1K 3JN

Authorised and regulated by the Financial Conduct Authority

Auditors
Barlow Andrews LLP
Carlyle House
78 Chorley New Road
Bolton
BL1 4BY

GENERAL INFORMATION

Investment Objective	To provide long-term capital growth from a globally diversified portfolio investing primarily in small to medium capitalisation companies specialising in identifying, developing and extracting gold. It may also invest in mining companies extracting other precious metals. There may be occasions, in light of adverse market conditions, where the Investment Manager chooses to hold high levels of cash, bonds and government securities. The Investment Manager may use derivatives for Efficient Portfolio Management purposes only.
Risk Profile	The fund invests primarily in small cap stocks, including AIM quoted companies. Smaller companies and AIM quoted companies are subject to a higher degree of performance and market risk than larger companies. Investments in the fund are subject to normal stock market fluctuations and other risks inherent in all investments where market prices can change. It focuses investment in one particular industry which may give rise to higher risk than a fund which has a more broad spread of investments. The fund aims to achieve capital growth over time by a spread of investments in the UK and overseas. The main risks arising from the financial instruments held are foreign currency and market price. These risks are monitored by the ACD in pursuance of the investment objective and policy set out in the prospectus. There is considered to be little exposure to credit risk and liquidity risk is monitored closely by the ACD.
Risk Warning	The past is not necessarily a guide to future performance. Investments and the income derived from them can fall as well as rise and the investor may not get back the amount originally invested. The fund is subject to an initial charge and consequently charges are not made uniformly throughout the period of the investment. Changes in exchange rates between currencies may cause the value of the investment to diminish or increase. The fund invests in smaller companies which carry a higher degree of risk than larger companies. The shares of smaller companies may be less liquid and their performance more volatile over shorter time periods. The fund has a concentrated portfolio which means greater exposure to a smaller number of securities than a more diversified portfolio. The fund focuses on a specific sector which can lead to greater volatility.
Reports and Accounts	The purpose of sending this Short Report is to present you with a summary of how the fund has performed during the accounting period in accordance with the FCA rules. If you wish to request further information, the more detailed long form report is available. For a copy please write to Marlborough Fund Managers Ltd, Marlborough House, 59 Chorley New Road, Bolton BL1 4QP or telephone customer services on 0808 145 2500.
Change in Prospectus	From 13 December 2013, class P shares became available for purchase. Also, from that date the Authorised Corporate Director's periodic charge and Depositary fees are calculated on a daily basis. Up to date key investor information documents, the prospectus and reports and accounts for any fund can be requested by the investor at any time.

AUTHORISED INVESTMENT ADVISER'S REPORT

For the six month period ended 28 February 2014

Percentage change to 28 February 2014

	Six months	1 year	3 years	Since launch (1 September 2009)
Junior Gold	-9.77%	-43.60%	-74.90%	-58.31%*

* on 01.10.2010 the name and objective of the fund were amended to focus on gold mining companies rather than general miners.
External Source of Economic Data: Morningstar (mid to mid, net income reinvested)

The fund's performance in the six-month period to 28 February 2014 was weak, losing 9.77% of its value. Its benchmark, the FTSE Gold Mines Index was down by 6.2% indicating the poor market conditions. However, there have been signs of a change in sentiment since the start of the year with renewed optimism for gold mining shares. The gold price appears to have found support at $1,200/oz and, even though it only bounced up by about 10.6% in January and February, gold shares outperformed with the fund's benchmark rising by 20.9%. The Junior Gold fund enjoyed a much larger re-rating of 40.1% due to its focus in smaller producing, well capitalised companies.

The fundamentals for gold are well understood in the market. Massive liquidity programmes by central banks are debasing the key reserve currencies. The global economy has only recently shown some signs of growth but, at these low rates, the debt mountain will not be reduced for many years to come. Many risks lie dormant such as the Eurozone's instability and general unease about the solvency of its banking system. China, the main driver of economic growth since the global financial crisis, appears to confront its own problems of asset bubbles and opaque banking practices. We believe that any event that undermines confidence would cause investors to look to gold as a safe-haven again. The massive liquidation of ETF gold holdings that caused the dramatic drop in the gold price last year could reverse just as quickly as new positions are acquired. On the supply side, Asian investors have been amassing physical gold at increasing rates. These investors are long-term minded and will be unwilling to sell their holdings as the price rises. The mining industry has suffered the worst bear-market in recent history. Marginal operations have been suspended and new projects cancelled. Exploration expenditure has fallen to historic lows as investors and capital markets did not want to know. Given the massive restructuring of the gold mining industry in the past two years, production is contracting rapidly, therefore, a rise in investment demand for gold would be met by constrained supply.

Assuming the price of gold rises, many think gold shares should be a one-way bet. We would argue that, even in a rising tide, not all boats will float. A big factor in the gold share sell-off over the past two years has been the lack of transparency in operating costs and long-term profitability. Most companies used to report just "cash costs" and, in some cases, "negative costs due to by-product credits". In reality, after all the costs of finding, developing, financing and operating a mine are accounted for and taxes or royalties are subtracted, many operations are currently losing money. It would take a significant rise in the gold price for these mines to return to profitability. A sensible investor, therefore, should focus on a detailed scrutiny of the cost structure as well as the prospective reserves and mine life. A big danger in the current climate of companies trying to lower their costs to survive is that the resultant "high-grading" or mining of the more profitable zones, can damage the economic life of a mine even if the gold price rises in the future.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

The sweet spot, in our view, in an environment where the gold price rises modestly towards $1,350/oz and beyond are those companies with the following characteristics: (i) strong balance sheet that does not rely on the capital markets for funding; (ii) organic growth in production that introduces economies of scale thus declining average all-in costs; (iii) Large reserves relative to the Enterprise Value of the company as compared to the respective peer group; (iv) low political and operational risks; and (v) fully funded development programmes for new mines that would operate under the first four criteria. As the gold price recovers, these companies benefit from the greatest operational gearing on their profitability. We also expect consolidation activity to intensify, focusing on companies meeting these five criteria. However, industry players will not overpay for their targets as there are few that have the financial resources to engage in transactions. The notable example is the hostile takeover by Goldcorp for Osisko Mining, offering a 15% premium to the last closing price of its target. With no competing suitor, there is little leverage for Osisko to demonstrate to its shareholders that it is worth more. Osisko was a core holding for Junior Gold prior to the Goldcorp approach and we decided to liquidate at a premium to the offer, re-investing the proceeds in more prospective opportunities. Some share deals and merger of equals also provide a way to increase access to financing and ability to deliver development projects such as the all-share merger between Asanko Gold and PMI Gold, both developing new mines in Ghana. We had holdings in both Asanko and PMI prior to the merger announcement and the newly enlarged Asanko is now Junior Gold's largest individual holding. We think many other corporate deals are being prepared in the sector. We are optimistic for further recovery in your fund in the year ahead and beyond.

Angelos Damaskos - Investment Adviser
8 April 2014

TOP TEN HOLDINGS AS AT 28 FEBRUARY 2014

	%
Kirkland Lake Gold	6.04
Asanko Gold	5.93
Focus Minerals	5.09
San Gold	5.07
Endeavour Mining	4.81
Aurico Gold	4.18
Aureus Mining	4.06
Spanish Mountain Gold	4.06
Great Panther Silver	4.05
Allied Nevada	4.02

TOP TEN HOLDINGS AS AT 31 AUGUST 2013

	%
Focus Minerals	7.94
Rambler Metals & Mining	7.58
Kingrose Mining	6.25
Spanish Mountain Gold	5.92
ECI Exploration & Mining	5.52
Aureus Mining	5.36
Fortuna Ventures	4.84
Alexco Resources	4.44
PMI Gold	4.22
San Gold	3.96

Portfolio Changes

For the six month period ended 28 February 2014

Major Purchases	Cost (£)	Major Sales	Proceeds (£)
Luna Gold	355,149	Rambler Metals & Mining	612,350
Rio Alto Mining	349,495	Osisko Mining	419,406
Kirkland Lake Gold	323,372	Pretium	364,311
Endeavour Mining	312,726	Teranga Gold	302,228
Teranga Gold	301,807	Continental Gold	278,887
Kingsgate Consolidated	278,469	Alexco Resource	185,123
Perseus Mining	268,859		
Lake Shore Gold	255,727		
Pretium	251,986		
Asanko Gold	236,932		
Continental Gold	234,590		
Great Panther Silver	229,616		
Aurcana	186,591		
Scorpio Mining	158,388		
Aureus Mining	152,570		
Shanta	144,784		
Aurico Gold	143,110		
Banro Corp	142,412		
Osisko Mining	140,683		
Richmont Mines	124,178		
Other purchases	507,081		
Total purchases for the period	5,098,525	Total sales for the period	2,162,305

FUND FACTS

Launched Accumulation Shares 1 September 2009 at 100p
Class C and Class I shares were first issued on 1 September 2009. Class P shares were first issued on 13 December 2013.

Accounting Dates	(Final)	31 August
	(Interim)	last day of February
Distribution Dates	(Final)	31 October
	(Interim)	30 April
Minimum Investment	Class C Retail	£1,000
	Class I Institutional	£50,000
	Class P	£1,000,000
IMA Sector		Specialist

Ongoing Charge Figure as at 28 February 2014 Class C 2.06% Class I 1.75% Class P 1.30%*
Ongoing Charge Figure as at 31 August 2013 Class C 1.95% Class I 1.70%
*13 December 2013 to 28 February 2014

The ongoing charge figure is based on expenses for the year, except as indicated above, where the ongoing charge figure has been annualised to give a more accurate representation of the true costs over one year. This figure may vary from year to year. It excludes:

- Performance fees
- Portfolio transaction costs, except in the case of an entry/exit charge paid by the fund when buying or selling units in another collective investment scheme.

SYNTHETIC RISK AND REWARD INDICATOR

Lower risk Higher risk

Typically lower rewards Typically higher rewards

1	2	3	4	5	6	7

The risk and reward indicator above aims to provide you with an indication of the overall risk and reward profile of the fund. It is calculated based on the volatility of the fund using weekly historic returns over the last five years. If five years data is not available for a fund, the returns of a representative portfolio are used.

This Fund has been measured as 7 because it has experienced very high volatility historically.

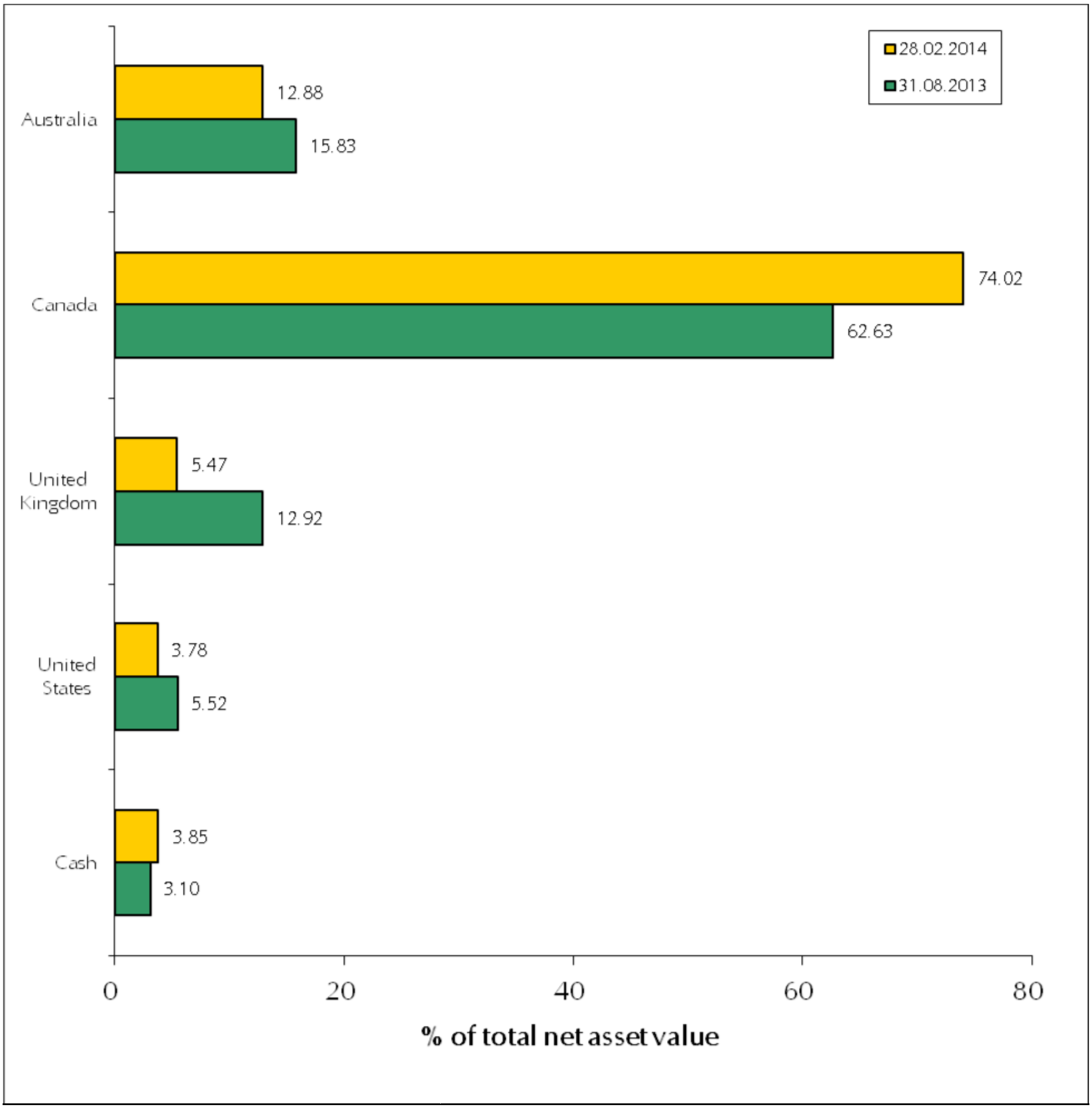
SUMMARY OF FUND PERFORMANCE

Year	Share Class	Share Type	Highest Price	Lowest Price	Distribution Per Share
2009	Class C	Accumulation	122.77p	96.07p	-
2010	Class C	Accumulation	177.09p	102.85p	-
2011	Class C	Accumulation	184.47p	127.25p	-
2012	Class C	Accumulation	145.42p	85.96p	-
2013	Class C	Accumulation	91.72p	28.74p	-
2014*	Class C	Accumulation	42.90p	29.87p	-
2009	Class I	Accumulation	122.65p	96.05p	-
2010	Class I	Accumulation	176.97p	102.77p	-
2011	Class I	Accumulation	184.38p	127.46p	-
2012	Class I	Accumulation	145.73p	86.28p	-
2013	Class I	Accumulation	92.08p	29.02p	-
2014*	Class I	Accumulation	43.25p	30.15p	-
2013**	Class P	Accumulation	30.57p	29.02p	-
2014*	Class P	Accumulation	43.38p	30.17p	-

*up to 28 February 2014
** for the period 13 December 2013 to 31 December 2013

Date	Share Class	Share Type	Net Asset Value of Scheme Property	Net Asset Value Per Accumulation Share
31 August 2011	Class C	Accumulation	£18,244,944	158.63p
31 August 2011	Class I	Accumulation	£21,192,689	158.81p
31 August 2012	Class C	Accumulation	£10,481,952	94.68p
31 August 2012	Class I	Accumulation	£8,532,709	94.70p
31 August 2013	Class C	Accumulation	£4,486,118	45.19p
31 August 2013	Class I	Accumulation	£3,354,478	45.50p
28 February 2014	Class C	Accumulation	£5,017,813	40.97p
28 February 2014	Class I	Accumulation	£5,609,752	41.31p
28 February 2014	Class P	Accumulation	£41	41.44p

GEOGRAPHICAL PORTFOLIO BREAKDOWN



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