The Good, the Bad & the Ugly

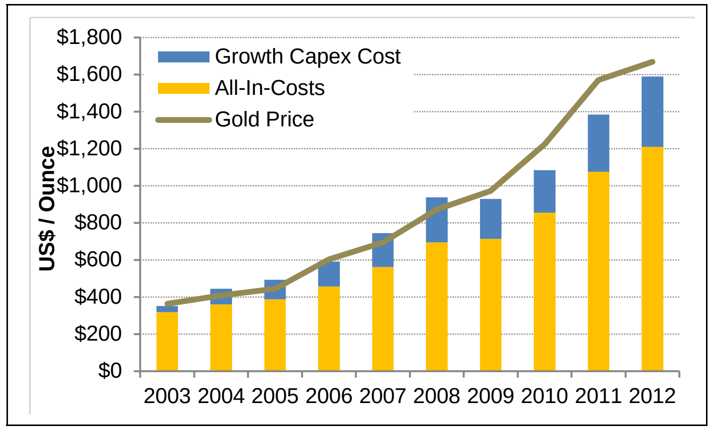
Identifying Value in a Difficult Market

Recent volatility in the gold price has renewed focus on the mining sector. Changing sentiment towards gold miners, compounded by weakness in the gold price, has left investors in mining shares "shell-shocked" by the broad decline in valuations. After declining by 15.4%[i] during calendar 2012, gold mining shares have fallen another 34.2% through the end of April 2013. During April alone, gold mining shares declined by 20.8%[ii]. On April 12 the gold price, based on the London PM Fix, officially entered a bear market, having fallen over 20% from its high of $1,895 per ounce on September 6, 2011. If this were an old Western movie, the gold mining shares would be the ugly, the gold price the bad…..but where is the good?

Finding value in a market as volatile as this requires very long-term perspectives and a great deal of ground work. Value does exist in the global precious metals and mining sector; however, identifying value in a bear market is not easy, nor without risk. In general, gold mining companies that are able to control operating costs and capital spending, deliver low cost production growth, are relatively well advanced in terms of project development and have strong balance sheets should perform better than those that do not meet these criteria.

Poor performance from gold mining shares and increased volatility in the gold price have highlighted the importance of well-managed operating costs and capital expenditures. Over the last 10 years, the increase in the price of gold has only slightly outpaced the rise in all-in-costs[iii] and growth capital expenditures[iv]. Total operating costs increased 14.8% in 2012 to $1,589 per ounce and over the past 10 years have grown at a compound annual growth rate (CAGR) of 16.3%. With the gold price having grown at a CAGR of 16.5%, mining companies failed to benefit from the rising gold price. Despite the rise in the gold price, many mining companies are reporting reduced earnings now compared to 10 years ago. The most recent pullback in gold prices to $1,400 per ounce has highlighted this trend and forced many companies to cut costs and reevaluate the profitability of projects or face negative margins and cash balances.

Chart 1: Total Operating Costs

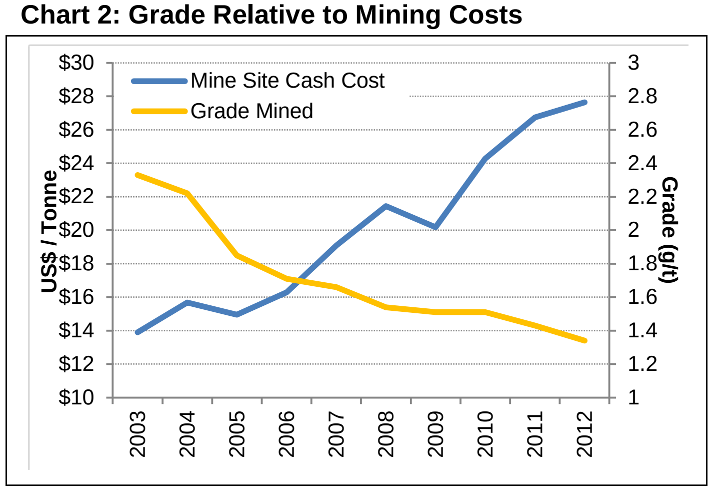


Source: Thomson Reuters GFMS, ASA Research

In an industry that has seen such significant growth in revenue, how has profitability not kept pace? Higher costs and lower ore grades have squeezed the margins of miners. As the gold price crept higher, the average head grade moved lower, decreasing by 42% over the past 10 years as illustrated in Chart 2 below.

At the same time that ore grades were moving down, costs were moving up, adding additional pressure to margins. Rising labor costs, resource nationalization (in the form of higher taxes and royalties), energy costs and equipment costs have all contributed to the 99% increase in mining costs per tonne of ore over the last 10 years.

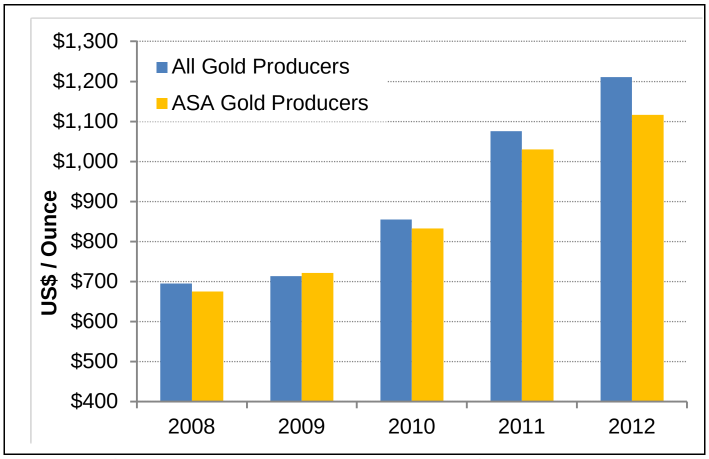
Chart 2: Grade Relative to Mining Costs



Source: Thomson Reuters GFMS, ASA Research

At ASA, these trends in margins and costs are not news. We have closely monitored operating costs, capital requirements and grades of the companies in this industry and have attempted to position the portfolio towards those we believe to be better stewards of capital and prudent mine managers. As a result, the average all-in-costs for the ASA portfolio are almost $100 per ounce lower than the industry average.

Chart 3: Weighted Average All-in-Costs



Source: Thomson Reuters GFMS; ASA Research

ASA relies on primary research and lengthy industry experience to help us identify those companies that are well-positioned to weather a volatile price environment. Emphasis is placed on companies with strong management teams that have a track record of performing through numerous market cycles and building high quality mines. In addition, our detailed modeling process provides the ability to stress test companies based on various gold price scenarios, which provides insight on total costs and identifies those companies that can maximize free cash flow in different market environments. This focus on quality has led to a portfolio that is conservatively positioned for further compression in the gold price, but also offers upside potential should gold begin a new bullish trend.

The mining industry is feeling the pressure to more prudently manage capital. We believe those miners who have historically been prudent allocators of capital are in fact “the good” found in this rather ugly environment. While the halcyon days of the last 12 years in the gold market may not return, we will continue to seek investment opportunities in companies which are better stewards of capital. In our opinion, these opportunities will provide the most long term value for our shareholders regardless of whether the market for gold and gold mining shares is good, bad or ugly.

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[i] As represented by the FTSE Gold Mines Index
[ii] As represented by the FTSE Gold Mines Index
[iii] All-in-costs include total cash costs, sustaining capital expenditures, general and administrative costs, mine site exploration and extraordinary charges.
[iv] Growth capital expenditures are defined as the capital costs required to build and develop new projects.

Established in 1958, ASA Gold and Precious Metals Limited is a closed-end precious metals and mining fund (NYSE: ASA) registered with the United States Securities and Exchange Commission and domiciled in Bermuda. The Company is one of the oldest investment management firms focused solely on the precious metals and mining industry. Managed by an experienced investment team, ASA invests primarily in the securities of companies engaged in the exploration, mining or processing of gold, silver, platinum, diamonds or other precious minerals. Investment decisions are supported with thorough bottom-up analysis based on fundamental research, due diligence mine visits and hundreds of meetings with mining executives and specialists each year.

ASA Gold and Precious Metals Advisers LLC, a California-registered investment adviser and wholly owned subsidiary of the Company, was founded in 2010 for the purpose of managing metals and mining investment portfolios for foundations, endowments and other institutional investors.

ASA Gold and Precious Metals Limited
NYSE: ASA
www.asaltd.com
650-376-3135