ASA LTD
Form N-CSRS
August 06, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number **811-21650**

ASA Limited

(Exact name of registrant as specified in charter)

400 S. El Camino Real
San Mateo, California **94402-1708**

(Address of Principal executive offices) (Zip code)

JPMorgan Chase Bank, N.A.
3 MetroTech Center, 6th Floor
Brooklyn, New York 11245

(Name and address of agent for service)

Registrant s telephone number, including area code: **650-376-3135**

Date of fiscal year end: **November 30, 2010**

Date of reporting period: **May 31, 2010**

Item 1. Report to Stockholders.

Chairman s Letter (Unaudited)

Dear Fellow Shareholders,

On behalf of your Board of Directors, I am pleased to report to you on the activities of your Company over the past half year, for the period December 1, 2009 to May 31, 2010 (otherwise referred herein as the Period). As usual, a detailed report on the investment matters for your Company over the Period is in the accompanying Portfolio Manager s message.

Performance in the Period

The price of gold remained strong through the Period and as at the time of writing stands at $1,200/oz as against a 2009 calendar high of $1,227/oz. Fiscal irresponsibility, particularly evident in an increasing number of Western economies surrounding the Mediterranean, has provided much of the continued support for gold prices although, as our Portfolio Manager reports on the following pages, gold shares have marginally lagged the appreciation of the metal given both geopolitical concerns and increased volatility in the respective stock markets. For the Period, your Company s net asset value (NAV) declined 3.3% against a virtually similar decline of 3.1% in your Company s benchmark, the FTSE Gold Mines Index.

Dividend Payment

I have written on recent occasions, particularly through the medium of this report, of your Company s declining dividend income stream, which has been caused by both lower payouts from the mining companies and a trend toward investing in lower yielding/higher growth companies by our Portfolio Manager. Your Board has determined that, given some retained investment income, it is beneficial to continue to pay an interim dividend. Your Board, therefore, recently distributed an interim dividend of $0.02 per share, versus last year s interim dividend of $0.033, as adjusted for the Company s recent 3-for-1 stock split. Any potential payout at the end of the year will be determined by taking into account net realized capital gains for the full year, rather than dividend income.

Discount Management and Tender Offer

A major function of your Board s ongoing responsibility is the monitoring of the premium/discount at which ASA s shares trade relative to NAV. Clearly there is a relationship between supply and demand and so, as a means of permitting as broad an access as possible, your Board approved a stock split, effective May 3, 2010, with respect to the Company s common shares. Given that the share price had been trading at over $70, a level that was deemed above the average of shares of companies traded on the New York Stock Exchange (NYSE) as well as for the closed-end funds sector, the stock split was announced with the primary and broad purpose of increasing liquidity. As you may recall, this in broad terms reduced the share price on the ex-date to one-third of the pre-split level and increased the number of issued common shares outstanding to 19.44 million.

Whilst the 10-year range of your Company s premium/discount of share price to NAV has fluctuated between a small premium to a discount of some 20%, both the 5-year and 2-year ranges have narrowed noticeably. Based on a 12-week moving average, we have seen a general improvement in ASA s discount during the past 12 months, and over the past six months the discount has fluctuated from a low of 5.4% to a high of 13.9%. This improvement is the result of a combination of factors, including an increased interest in the precious metals sector by investors, the impact of the stock split and the tender offers that have taken place over the past two years.

During the Period, your Board announced a 12-week Measurement Period, which started on May 3, 2010 and which will end on July 23, 2010. This Measurement Period is in line with the assurance provided shareholders in March 2008 when your Board authorized a tender offer program pursuant to which a cash tender offer would be made in 2010 for 10% of the then outstanding shares, at a purchase price of 98% of NAV per share, if the Company s shares traded on the NYSE during the Measurement Period at an average discount to NAV of greater than 10%.

The Way Forward

In previous correspondence I outlined the reasoning as to why your Board has adopted a more expansionary business strategy. In short, this strategy is intended to counteract any possibility of a less secure future for ASA as a single product investment company, as well as to fulfill your Board s desire to provide an attractive, expanding corporate environment for its staff that will offer a worthwhile and conducive career path over the long term. I further set out that, under ASA s regulatory environment, any such possible expansion required both the positive approval from our shareholders and the receipt of a no-action letter from our regulator, the U.S. Securities and Exchange Commission (SEC) to permit the Company to form a wholly-owned investment advisory subsidiary. As you may recall, shareholder approval was provided at our Annual General Meeting in March. Our legal counsel has been in active discussion with the SEC on the matter of the no-action letter and we hope to be able to update shareholders in the near future.

As I have also previously written, your Board hopes that the SEC Exemptive Order under which ASA operates can be modified to permit your Company to operate on a more level playing field relative to its U.S. peer group entities. We are hopeful that a recent meeting convened in Washington between management and the SEC staff will hasten favourable results with regard to the Exemptive Order.

Meanwhile, progress is being made on the consolidation of your Company s operations in its recently relocated headquarters in the San Francisco Bay Area. Suitable office space is now in use and we are in the process of engaging the human resources necessary to provide adequate operational capability to meet our present and perceived short-term objectives. We look forward to keeping you informed of progress in the development period lying ahead of us.

Our thanks to you for your support through the Period.

Yours very sincerely,

Julian Reid
Chairman ASA Limited
July 22, 2010

Portfolio Manager s Report (Unaudited)

A high level of global financial stress during the past year has driven gold prices to an all-time high as investors sought the perceived safety of gold during times of financial uncertainty. The performance of gold mining shares, however, lagged the rise in gold prices during the early months of 2010, as geopolitical concerns and increased volatility in the broader equity markets negatively affected the demand for the shares of mining companies. Gold prices rose 2.7% from November of 2009 to May of 2010 while global gold mining shares decreased 3.1% as measured by the FTSE Gold Mines Index (FTGMI), and ASA s portfolio was impacted by that dichotomy during this reporting period.

At May 31, 2010, the net asset value (NAV) of the Company was $28.86 per share versus the closing price of the Company s shares on the New York Stock Exchange (NYSE) of $25.81 per share, representing a discount of 10.6% to NAV. The share price of closed-end funds like ASA is determined by trading activity in the open market and consequently may reflect a premium to (higher than) or discount to (lower than) its underlying NAV. During the last six months, the discount at which the Company s shares traded fluctuated from a low of 5.4% to a high of 13.9% and averaged 9.3% as measured on Friday of each week. For the first six months of the 2010 fiscal year ASA s total return based on the NAV of -3.3%, including reinvested dividends, is similar to the return of -3.1% for the FTGMI, an underperformance of 13 basis points. The performance of ASA s shares as reflected on the NYSE during the same period, including the reinvestment of dividends, was -2.6%, with the slightly stronger performance as compared to the NAV the result of a reduction in the discount during the same period.

Over the one-year period ending May 31, 2010, the total return of ASA s NAV, including reinvested dividends, was 14.8% versus a return of 10.6% for the FTGMI. During that period, ASA s NAV outperformed the FTGMI as its investments in the platinum sector and several of the Company s investments such as NovaGold Resources Limited, Anatolia Minerals Development Limited, and Randgold Resources Limited outperformed the FTGMI.

ASA s portfolio is not designed to track the performance of the FTGMI, as our portfolio includes significant positions in several companies that are not included in the FTGMI. Likewise, the FTGMI includes some securities that are not held in ASA s portfolio. As such, the performance variation relative to the FTGMI may be more pronounced than it would be for a

Chart 1: Trailing 1 Year Relative Performance
Source: Bloomberg and ASA research

comparable index fund. However, in the view of the Board of Directors, the FTMGI is the most appropriate market index for measuring ASA s relative performance.

For the six months ended May 31, 2010, the Company had a net investment loss of $41,398 or $0.00 per share compared to a net investment loss of $255,818 or $0.01 per share for the six months ended May 31, 2009. The Board of Directors declared dividends totaling $0.45 per share during the last twelve months after adjustment for the 3-for-1 stock split distributed to shareholders during May of 2010. The most recent dividend of $0.02 per share was paid on May 28, 2010 to shareholders of record on May 21, 2010. Dividend income earned by the Company during the last six months increased by $1.3 million largely due to a one-time receipt of proceeds from the sale of rights in Anglo Platinum Limited, which for accounting purposes was treated as dividend income. Net of this onetime event, dividend income remained relatively flat during the last six months due to the continued effects of the global economic slowdown, an increased emphasis on higher growth investments and decreased distributions received from our investments in the platinum sector, combined with a decrease in assets under management. Despite declining dividend income during the last three years, we believe that the outlook for dividend income is beginning to improve as more gold producers are considering an increase in dividend payments. Nevertheless, the Company does not anticipate generating positive net investment income during 2010.

Market Update

We continue to expect a strong gold market for 2010. For the past few years gold has surged upward in an environment of economic uncertainty and volatility. During 2009 and into 2010, gold prices have reacted strongly to increased investor concerns related to the potential for rising inflation rates and the weakness of the U.S. dollar. As the U.S. dollar tumbled, many investors looked to gold to preserve the value of their investment portfolios. Interestingly, some investors looked to diversify their U.S. dollar holdings by investing in the Euro over the past year in anticipation of a weakening U.S. dollar / Euro exchange rate. However, in the opening months of this year the Euro has weakened considerably as heightened concerns related to sovereign debt within the European Union spread. The possible inflationary impact of a European Central Bank rescue package and the difficulty in finding a solution to the financial crisis, given the single currency system, has led some investors to question the survival of the Euro as a viable currency. As investors fled the Euro, demand for gold ETFs, bullion, and gold coins surged, driving gold prices to new highs. Typically, gold has moved inversely to fluctuations of the U.S. dollar. However, in recent months as a result of the European debt crisis, and a resulting shift in confidence from the Euro to the U.S. dollar, the U.S. dollar and gold prices have been moving in tandem.

Chart 2: U.S. Dollar / Euro Exchange Rate and Gold Price
Source: Bloomberg and ASA research

Investor sentiment has not been the only factor influencing gold demand in 2010. After a 20% drop in jewelry demand during 2009 due to the global recession, demand increased 43% during the first quarter of 2010 versus the first quarter 2009 as consumers, particularly in non-Western markets, became more accustomed to higher prices and returned to normal purchasing activity. In our view, an improvement in global jewelry demand will be a key factor in sustaining gold prices should investment demand soften in coming months as economic conditions improve. As with many commodities, Chinese demand for gold, both in jewelry products and as an investment, is also having a profound impact on the gold market. During the first calendar quarter of 2010 alone, Chinese demand for gold jewelry is estimated to have increased by 11% from the same period of last year to approximately 105 tonnes. Likewise, demand for gold investment products in China is estimated to have increased 57% during the same period, bringing total demand to nearly 140 metric tonnes.

Chart 3: Rising Chinese Gold Demand

Source: World Gold Council

Global gold mine production has begun to increase after declining for several years. During the first calendar quarter of 2010, global gold mine production increased 5% to 611 tonnes compared to the first quarter of 2009 as producers increased output and developed new operations seeking to take advantage of higher gold prices and the increased availability of capital. Over time, however, it is expected that the industry will revert to its prior trend of declining production as reserve growth is unable to maintain the pace of demand growth. It is increasingly difficult to discover, permit and develop new mines, lengthening the time required to develop new mining operations. Additionally, governments around the world are showing renewed interest in increasing taxation of mining companies, potentially impinging on new project development. Among the recent actions to increase resource taxation and regulations are a new royalty system in South Africa, an attempt by the Australian government to significantly increase the resource tax and Mongolia s recent prohibition on the issuance and transfer of mining licenses until the government can enact a stricter law on foreign mining investment.

Gold recycling surged during the last two years in response to high real gold prices, aggressive advertising, and a historically high level of inventory of older jewelry designs held by consumers. According to the World Gold Council, recycling has slowed by 43% in the first calendar quarter of 2010 from the lofty levels recorded during the first quarter of 2009. The decline in recycling suggests that the supply of readily available old jewelry is nearing exhaustion as consumers have cleaned out their closets.

It is our expectation that growth in demand for gold investment products and a recovery in jewelry purchases will continue to support a strong gold market in 2010. A slow and fitful economic recovery in the U.S., combined with continued concern over European sovereign debt, should maintain investor interest while pent-up demand and acceptance of high gold prices should continue to fuel a slow recovery of jewelry demand. While improving fundamentals are supportive of a strong price environment, as the last two years have shown, the gold price is influenced by numerous geopolitical events suggesting that uncertainty, in whatever form it may take, remains one of the biggest drivers of volatility in the gold market.

Portfolio Changes

At the end of May 2010, approximately 82% of ASA s total net assets were invested in gold mining companies, versus 81% at the end of November 2009. Overall, approximately 96% of total net assets were invested in precious metals and mining, exploration or development companies as of the end of May 2010. This includes gold and silver mining companies, platinum mining companies, and precious metal ETFs, with the remainder invested in a diversified mining company and short-term cash positions. Since its fiscal year end last November, the Company has continued to increase its holdings of North American gold and silver companies at the expense of some South African investments. We have made recent investments in Anatolia Minerals Development Limited, a Canadian-based emerging gold producer which is developing the Çöpler project in Turkey and is a leading explorer in the region. During the last several months, the shares of Anatolia Minerals have been among the strongest performers in ASA s portfolio, contributing positively to the Company s total return. We have also initiated a position in the shares of Tahoe Resources Inc., which has recently acquired the Escobal silver project in Guatemala from Goldcorp Inc. Both of these companies are listed in our Schedules of Investments as Canadian companies, as this is the country of registration, although they maintain the majority of their assets outside of Canada as is typical in the industry.

Chart 4: ASA Portfolio - Asset Allocation

Source: ASA

Investment demand has been very strong during the last six months for both platinum and palladium (PGMs) and we believe demand will continue to support prices during the remainder of 2010. With South Africa s public utility, ESKOM, indicating that power supply will continue to be tight for the next several years, we believe the production of PGMs from South Africa will be constrained and the development of new assets unlikely to result in a significant increase in global PGM production. Given the operating issues within South Africa, we have reduced our holding in Lonmin PLC and initiated new positions in the ETFS Platinum Trust and the ETFS Palladium Trust, both of which were recently listed on the New York Stock Exchange. With South Africa producing an estimated 80% of the world s supply of PGMs, any disruption to supply is likely to drive metal prices higher. As such, holding the physical metal via these ETFs provides our portfolio with a natural hedge against problems within the South African industry.

Changes in Portfolio Holdings	**Shares**
Sales:	
AngloGold Ashanti Limited	150,000
Compania de Minas Buenaventura S.A.A. - ADRs	325,000
Gold Fields Limited	250,000
Lonmin PLC - ADRs	100,000
Purchases:	
Anatolia Minerals Development Limited	1,343,000
Barrick Gold Corporation	50,000
ETFS Palladium Trust	40,000
ETFS Platinum Trust	10,000
Newmont Mining Corporation	100,000
Tahoe Resources Inc.	400,000

During the last six months, the changes to the portfolio have reduced the Company s investments in the South African gold producers from 12% of total net assets at the end of November 2009 to 10% at the end of May 2010. This compares to approximately 46% of total net assets being invested in South African gold producers at the end of fiscal year 2005. In total, approximately 23% of ASA s investments, including the platinum producers, is represented by South African companies at the end of May 2010, an all-time low for the Company. Despite the reduction in the assets invested in this region, AngloGold Ashanti Limited and Gold Fields Limited remain among the highest quality gold producers in the world and are themselves gradually diversifying their own portfolios of mining assets outside of South Africa.