

Dear Shareholder,

I was induced to participate over the Easter holidays in a family riding holiday in the Camargue where I was delighted to discover that there is still very little access to the internet or constant mobile telephony. I was therefore able to entrust the quarterly report to Larry who is now sharing the management of the fund. I am delighted and relieved to see that the change of sentiment in the gold bullion and the larger gold mining stocks is just beginning to filter down into the junior sector with some of our downtrodden little stocks rising 50% or more in the last week or so. Long may it continue! Below are Larry's comments:

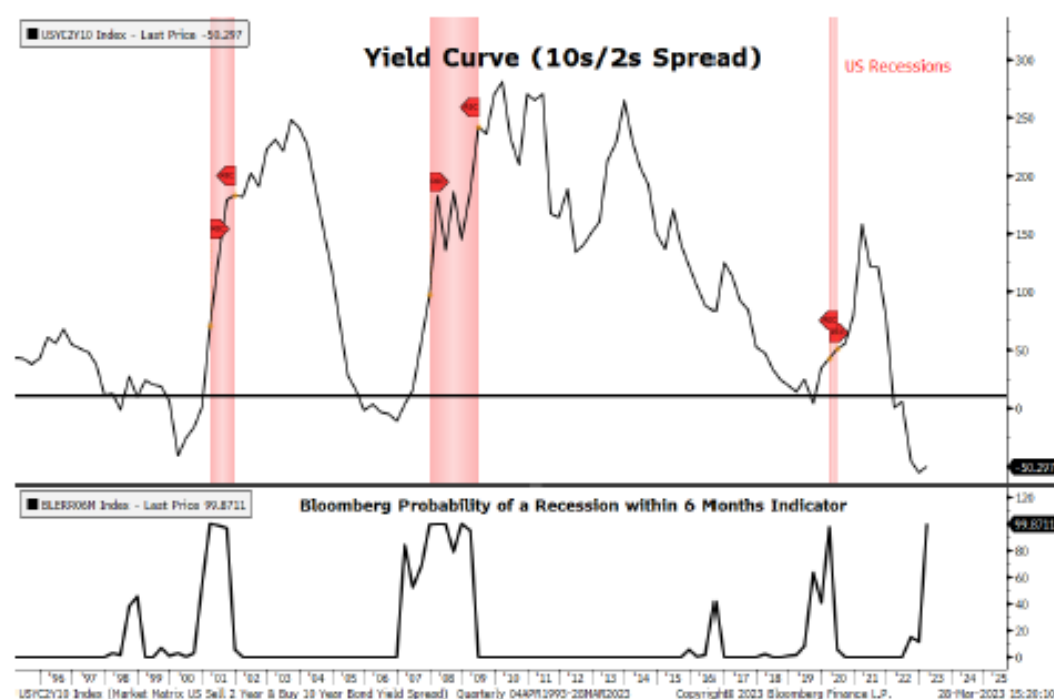
'There are decades where nothing happens; and there are weeks where decades happen.' Vladimir Lenin upon the 1917 Russian Revolution.

The first 'hot' war in Europe for several decades, US Fed tightening at a pace last seen in the 1970's and the rise of a new world order that displaces the hegemony of the Petro-dollar. Add to the picture white hot inflation, Credit Suisse expiring and the S&P off 20%, posting its worst return since the 2008 GFC. Safe to say the last 12 months was anything but dull! For all this turmoil, what was benign, however, was the gold price, closing out 2022 flat at US\$1,790/oz. The soothing role of gold within a portfolio became obvious and its appeal has only become more pronounced as it tested new highs with the first weekly close over US\$2,000/oz since 2020.

We see little reason for many of the above issues to dissipate over 2023, recognising that white hot US dollar inflation is the result of exorbitant money printing (M2 supply +30% in last three years) by the US Fed rather than a buoyant consumer base, with housing and manufacturing activity at near recession levels across the US. With the probability of a recession high, a subsequent pause and pivot to retract rates such as that after the GFC, preceded the last great bull run (3x) in gold from 2008-2011 (Figure 3).

Taking a step back to review Q1'23, the biggest headwind on the gold price, being the strong US dollar, finally reversed as expectations of a prolonged rate hiking cooled when the Fed prioritised market stability over price stability in the wake of the banking crisis. As indicated in Figure 1 the spread in the 2 years-10 years yield curve has inverted the most since the early 1980's and the associated Volcker era rate hikes. This usually precedes a recession (that many pundits see as a certainty) and hence has led to the weakening US dollar as the DXY moved from 115 in November 2022 to 101 by the close of March (grey in Figure 2).

Figure 1: Spread between 10- and 2-year treasury yields (RHS) and probability indicator of recession (bottom) (Source: Paradigm Capital)



The disregard of how accurate the US Fed's preferred measure for inflation is can be highlighted by the par value of the US Treasury Inflation Protected Security (TIPS) which should offer real yield to account for inflation. In theory and in practice this should be inversely correlated to the opportunity cost of holding bullion, a relationship that has held from 2017 to the onset of fed tightening in H1'22. As seen in Figure 2 though, it is apparent that the personal consumption (PCE) measure (that excludes food and energy) is heavily under-estimated by the Fed thereby not providing a real yield. As such the opportunity cost is minor for the certainty that gold provides and explains to a degree how the price has found a floor above US\$1,700/oz in the face of consecutive rate rises.

Figure 2: Gold Price (Orange, LHS) vs TIPS (Blue, RHS Inverted) vs US Dollar (Grey, RHS Indexed to 1). (Source: Bloomberg)

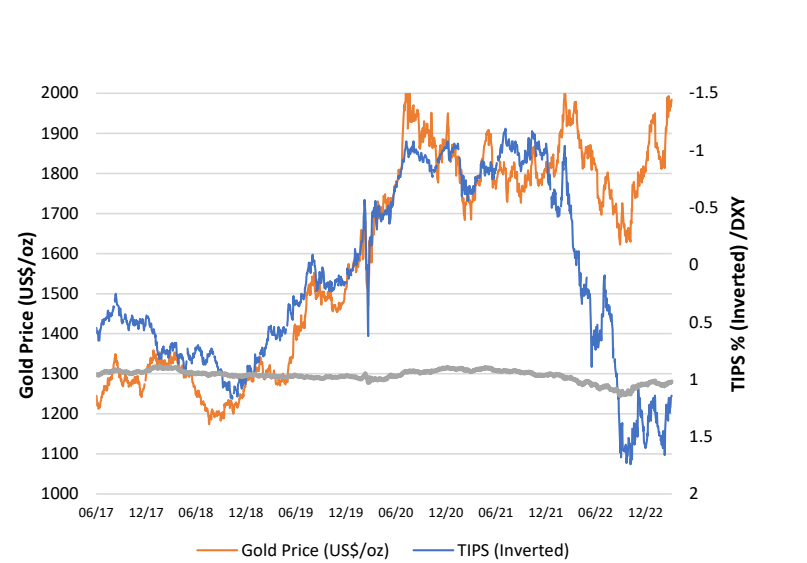
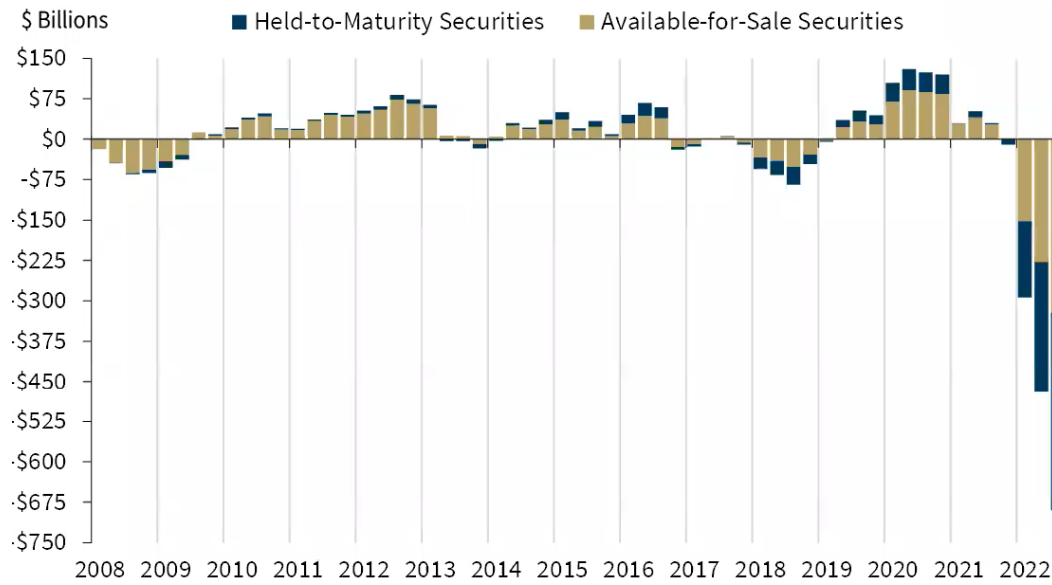


Figure 3: Fed rate vs Gold Price post GFC (Source: Bloomberg)



The inversion of the yield curve had had the most immediate effect in profit margin of the banking sector which borrows short and lends long. Losses on bond portfolios (Credit Suisse) and a general flight of deposits (Silicon Valley Bank) have set the scene for a prolonged crisis in our view. Most alarming has been the mark to market losses (over US\$650B, Figure 4) that banks are yet to realise despite strategies to hedge interest rate risk. The exposure to this risk extends further to pension funds, the recent example being the £65 billion bailout from the Bank of England in October to address its risk in the bond market. The impact of dramatic rises in interest rates on the quadrillion dollar derivative books of the banks leaves one wondering where the huge losses will eventually show.

Figure 4: Unrealized Gains (Losses) on Investment Securities (Source: FDIC)



The steep inversion of the yield curve will also impact the US government where total public debt is up 33% since the onset of COVID and at the highest-level vs GDP since World War II (Figure 6). More pressing is the fact that US interest payments are up 42% YoY and with over 70% of US debt maturing beyond 12 months with over \$7 trillion worth of public debt needing to be refinanced during the 2023 fiscal year.

With each percentage point increase in rates incurs \$70 billion of additional interest, interest repayments alone are now approaching national defence expenditure (Figure 5).

Figure 5: Annual US defence and interest costs (Source: FRED)

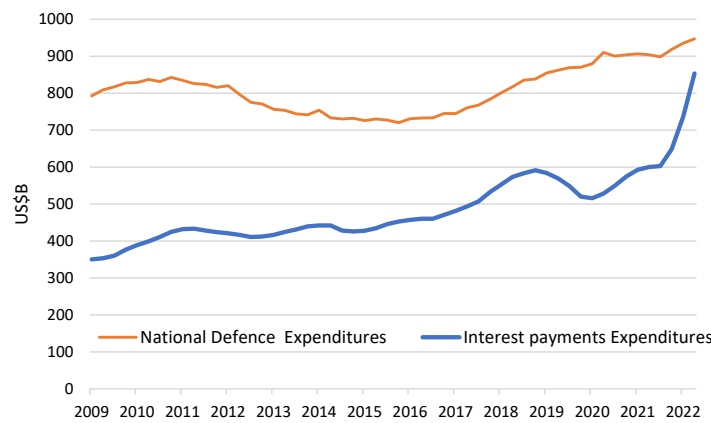
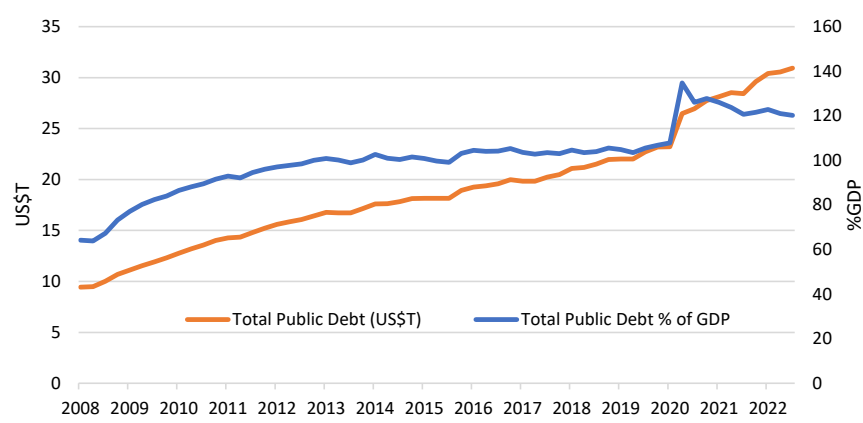


Figure 6: US Federal debt (Source: FRED)



The distrust in the US dollar and displeasure of its weaponization post the Ukraine-Russia conflict has been a key theme behind Central bank buying being dominated by Eastern countries over 2022, continuing the trend post the GFC and the onset of QE (Figure 7). Of the \$12.7 trillion in central bank reserves the US\$ now accounts for 51% (from 60% a decade ago), the Euro 17% and Gold 15% with other currencies <5% each.

Global Central bank buying was the highest level since 1967 (Figure 8) with over 400t of demand in H2'22.. Interestingly Singapore was the largest purchaser during February 2023 with over 50t, likely to coincide with the opening of additional bullion vaults for regional storage.

Figure 7: Central bank holdings (t) of gold (Source: World Gold Council)

Figure 8: Global Central Bank Demand (Source: Metals Focus)



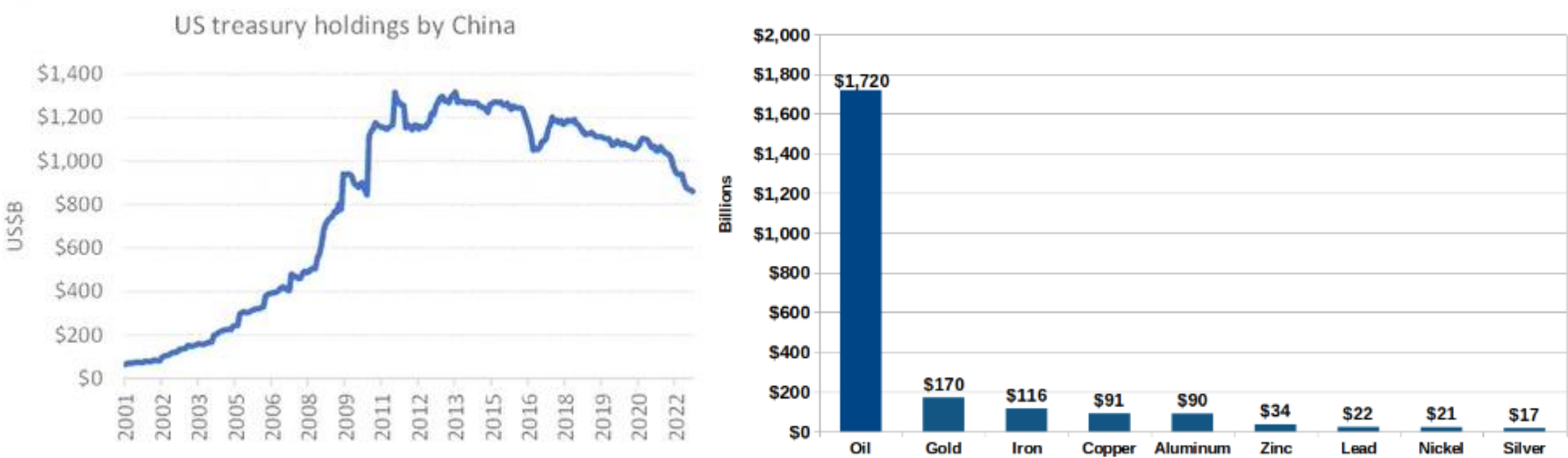
The role of bullion with Central banks assets can be best demonstrated by China purchasing 62t of gold in November and December, increasing its gold reserves for the first time since mid-2019. Having been highly guarded on declaring additional purchases not to put upward pressure on the gold price, it is apparent that holding bullion rather than US treasuries (Figure 9) will form part of the fungible backing for any mooted commodity backed currency with other BRICs countries. Having already linked crude oil futures on the Shanghai Exchange with the ability to convert yuan to physical gold, China is now the Gulf state’s largest trade partner accounting for 25% of global oil sales.

Moves are already well afoot too with other BRICS countries to diversify from the settling of trade in US dollars, with China’s tenth largest trading partner, Brazil, moving to settle in Yuan, despite only accounting for 2.3% of global payments, likely in recognition of the increased gold backing of the currency. This follows China’s similar deal with Saudi Arabia that has been consolidated with Aramco building two refineries in China. Similarly, India increased its oil imports 30-fold from Russia over 2022, content to make settlement mostly in rubles.

The current situation, where 40% of proven oil reserves are held in Russia, Iran, and Venezuela that are all under strict US sanctions, should only accelerate support to the Petro-yuan system, given the ability to repatriate trade in physical gold. We see gold as best placed amongst a basket of commodities to underwrite this system due to its fungibility, value and acceptance. The BRIC’s conference in South Africa, during August 2023, is supposedly when this trading block will announce the constituents of its alternative trading currency to the US Dollar.

Figure 9: US treasury holdings in China (Source: CG)

Figure 10: 2021 Global Commodity US\$ Revenues (Source: Financial Underground)



Portfolio Update:

Over the March Quarter the PGF returned 6.8%, inline with the HUI (7%) and GDXJ (8%) and broader market (S+P 500 +7%) as market sentiment oscillated on the direction of rate pausing. The gold price traded in a range of US\$1,800/oz to US\$2,000/oz with the most pronounced legs down as a response to US job openings (JOLT reporting) suggesting a hot labour market that could fuel further rate hikes.

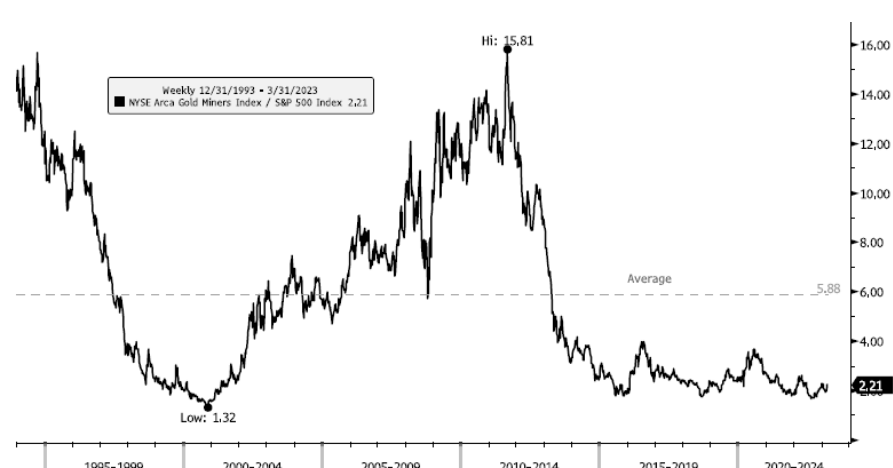
With the gold price (Figure 2) completing the classic handle above US\$1,800/oz since September 2022, liquidity is gradually returning to the junior end of the gold sector as the GDXJ has performed in unison with the producer weighted HUI and GDX indices. However, generalist investors are well under weight the sector as the key theme of the cost of growth and preserving shareholder returns weighs on sentiment.

Having met with many of our portfolio companies in North America recently, the main risk that many companies identified was accessing skilled labour whether that be professional (geologists, mining engineers) or industrial (trades, drillers) due to the lingering effects of COVID restrictions (“great resignation”) and tight labour market. Combined with increasingly onerous permitting requirements, this constraint has most likely directed the preference of “buying” over “building” a project that characterised some of the M+A activity over the quarter.

Figure 10: NYSE Arca Gold Mining Index / Gold Price (Source: ASA)

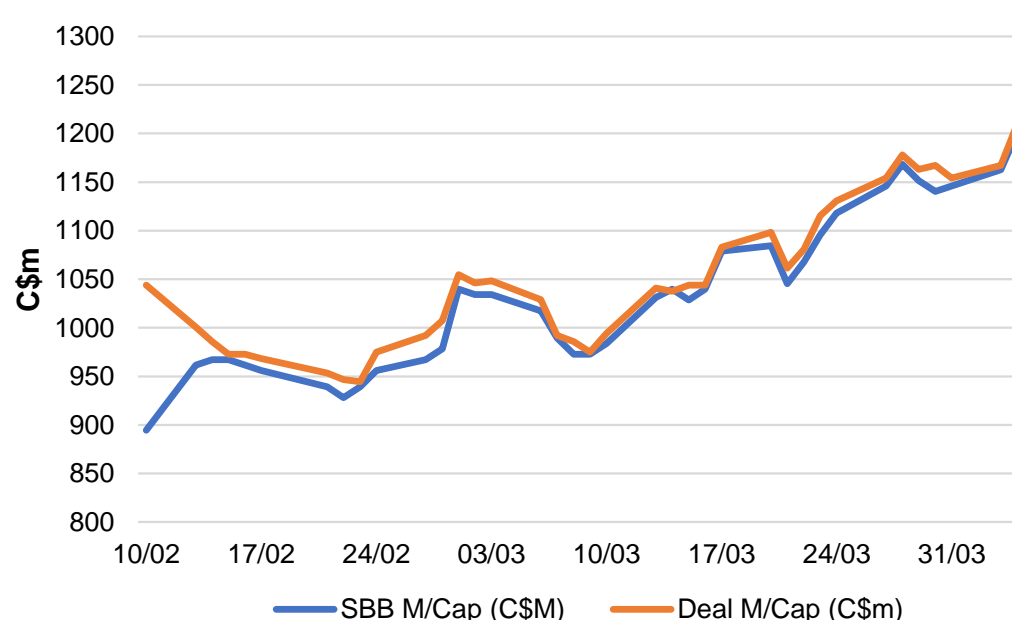


Figure 11: NYSE Arca Gold Miners Index / S&P 500 (Source: ASA)



We have been long term holders of Sabina Gold & Silver (SBB-TSX) recognising the excellent geological potential of its Back River project and long saw it as a target to majors with its 9Moz and +300kozpa production profile. While acknowledging B2 Gold (BTO-TSX) acquiring Sabina at C\$1.1B on an all scrip value is very cheap we see the merit in the deal to ramp up exploration and development and provide exposure to the abundant cash flow B2 is expected to derive from the expansion towards 800kozpa at its Fekola project. Post the 43% deal premium announced in February has been factored in, Sabina’s value has increased 35% vs B2 15% which suggests the deal should be accepted with the risk of an interloper low.

Figure 12: Sabina Market Capitalisation (trading vs implied) since deal announcement (Source; Bloomberg)



A marriage that we viewed as more arranged was Pantoro (PNR-ASX) merger with Tulla Resources (TUL-ASX) whom were 50/50 joint venture partners in the Norseman Project in Western Australia. Pantoro, as operators of the asset, faced the ramp up challenges (labour, ore movement, equipment failure) that have characterised many emerging Western Australia gold producers. This necessitated multiple capital raisings since turning the plant on in September 2022 often at heavily discounted placements thereby diluting us and fellow long term shareholders. The pain worsened in February in a piece of a terribly-timed merger, whereby Pantoro provided Tulla with a 23% premium to merge despite operating the asset, and disregarding the recent precedence of a 50/50 JV such as Saracen/Northern Star at the Kalgoorlie superpit being dealt on a nil premium basis. The merger resulted in a further 70% share dilution along with placing half the new board with Tulla directors that made the JV so strained in the first place. While the Norseman asset has undoubted potential, “ripping the band-aid” at the project’s most vulnerable time during ramp up is poor judgement and we feel was forced on Pantoro to ensure a majority holding for PNR (51.5%) in the post-merger pre-placement shareholding.

Figure 13: Pantoro (Red) vs Tulla (Purple) m/cap since IPO RHS, A\$m) vs Gold Price (LHS, US\$/oz), deal date (yellow) (Source: Bloomberg)



Improvements in the junior end of the market have enabled us to be more active with portfolio rotations with some long awaited profit taking to direct towards companies that we view as more catalyst rich over the near term. With M+A at the larger end (Newmont and Newcrest and Agnico Eagle + Yamana) likely to trickle down to the mid cap producers we expect the opportunities for outperformance will reside in this segment. In addition, we continue to be constructive towards the precious metals royalty companies to provide gold price exposure that is immune to the prevailing rising costs.

With the economic outlook in the US deteriorating in spite of the SPX approaching highs seen mid-rate hike in August 2022, we view it will dawn on generalist investors how underweight they are in gold with the resultant influx of liquidity to channel down into the more leveraged developers and producers. We continue to refine who is best placed to attract the attention of corporates who are likely to value most the sunk investment to define quality ounces and advance permitting in an increasingly high cost and bureaucratic environment.

Lastly, as of the start of March the Phoenix Gold Fund will be co-managed by Seraya Investment Pte. Ltd in Singapore. Larry, who has assisted me with the fund since August 2020, will step up as co-Fund manager as a representative of Seraya. For all intent and purposes, our duties remain unchanged and we thank you for entrusting us with this responsibility.

Yours Sincerely,

Larry Hill

David Crichton Watt