

Dear Shareholder,

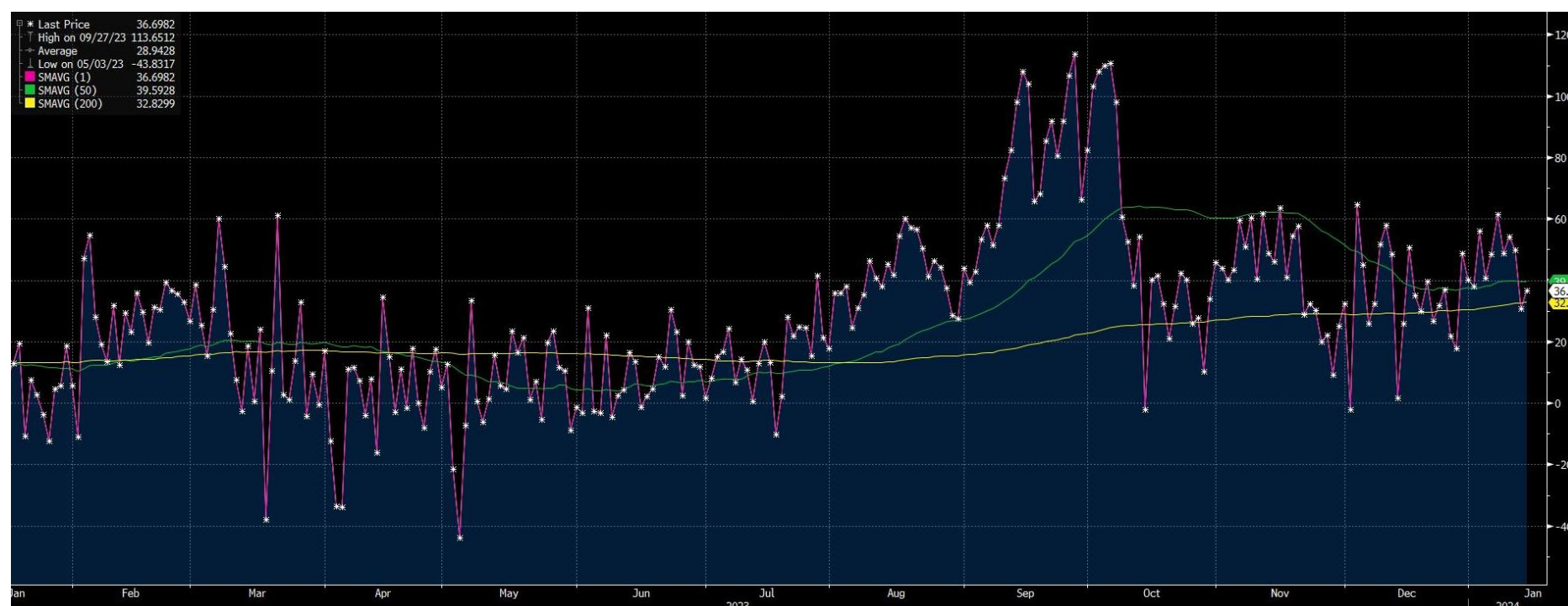
I found the final quarter of 2023 a fascinating one as it is the first time since 2010 that the gold price has been able to close higher in all three months of the quarter and December was the first monthly close above \$2,000. The following monthly chart of the gold price shows this quite clearly.

Figure 1: Quarterly Gold Price; Simple and moving average (US\$/oz) 2004-2023 (Source: Bloomberg)



I think what this tells us is that the paper gold market as represented by Comex is becoming divorced from the physical market in gold. Vast amounts of gold are traded daily on Comex (approximately 40 million ounces daily) but very rarely does delivery ever take place, with settlement of contract profit or loss being made in cash. This has enabled the Federal Reserve, assisted by the bullion banks, to exercise some control over the price of gold. Option demand can be satisfied by selling call options and then by selling Comex contracts aggressively as the option maturity approaches. Thus an option expiry close above \$2,000 has been staved off three times previously. However physical demand has recently been so strong (as evidenced by the following chart of the \$ premium per ounce over the LBMA OTC Spot price on the Shanghai physical gold market) that on this occasion it was not possible.

Figure 2: Shanghai Gold Exchange physical delivery price premium/discount over LBMA OTC price 2023 (Source: Bloomberg)



Since the second half of 2023 the physical market price has traded at premia over LBMA Spot as high as \$100 an ounce, and averaging around \$50 an ounce. Given the geo-political maelstrom through which we are presently navigating, this trend seems likely to accelerate. With China and Russia the two largest gold producers and India the largest buyer it is difficult to imagine that London or New York will be able to retain their influence on the gold price for much longer. With Russia this year assuming the chairmanship of the enlarged BRICS and the Russian expressed desire for a gold linked settlement currency to replace the dollar in international trade, 2024 promises very interesting developments in the bullion market.

With elections scheduled in over 50 countries this year, doubtlessly accompanied by fervent money printing to assist voters in making the right choices, with budget deficits ballooning everywhere in the bankrupt West, and with bank balance sheets stretched to the limit, it is difficult to imagine a better environment in which gold will shine. So far, the stock markets have continued to draw in surplus funds with market participants convincing themselves that there will be a series of interest rate cuts allowing for a soft landing of the economy and enabling Governments to sell enough bonds to fund their enormous deficits. Corporate earnings, of course, will continue to grow even though Europe is already in recession. The present US market and its “Magnificent 7” reminds me a lot of the great Dot.Com bubble which finally burst with gold languishing at \$250 an ounce!

I will now leave the field to Larry’s analysis:

2023 confounded most market pundits that saw a recession in the US priced at the start of the year as a continuation of the bear market of late 2022, yet the Nasdaq 100 had its best performance (55%) since 1999. Despite the Federal Reserve raising rates four times to levels last seen pre-GFC, the market looked through to the prospect of at least four rate cuts over 2024 (Figure 3) and the market piled into the “Magnificent 7” such as Apple (AAPL-US) that soared to all time high prices. US Core Inflation (CPI) having drifted to 3.7% mid 2023, reverted to the target of 3% by year end. However, several economic indicators pointed to increasing softness within the US economy. Should rapid tightening eventuate (Figure 3) past cycles dictate that this usually presages a recession over the subsequent 12-18 months (Figure 4).

Figure 3: US Fed fund rate expectations (Source: Refinitiv)

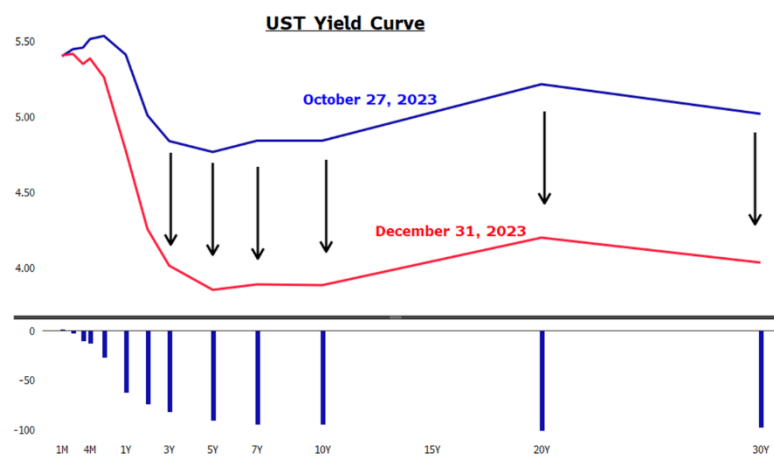
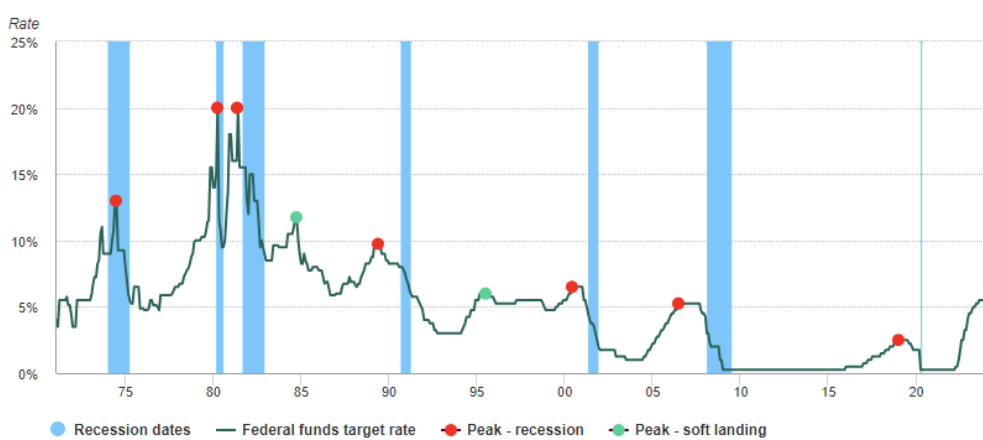
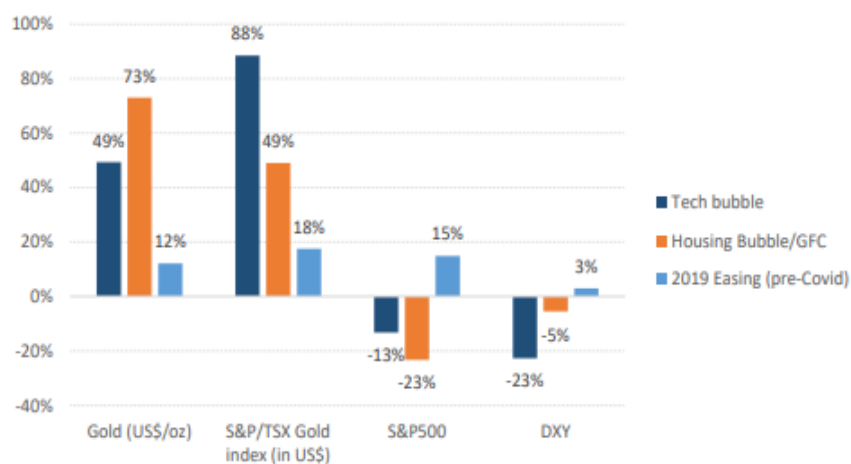


Figure 4: Fed fund rate vs recession dates 1971-2023 (Source: NBER)



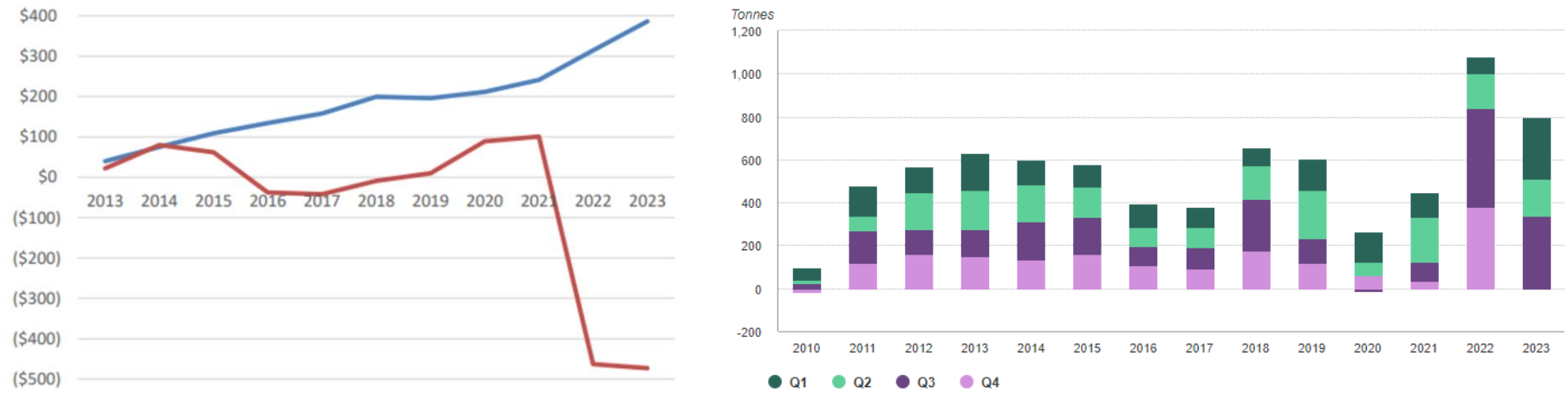
Historically, the Fed has managed a soft landing only twice following nine tightening cycles over the past five decades. If a recession becomes a reality, weaker growth will direct further rate cuts and further weakening in the US dollar. This has historically created a positive environment for the gold price (and hopefully gold stocks) vs the general market (Figure 5). We sense this has been behind the resilience of the gold price despite the opportunity cost of holding bullion when real rates (TIPS) have climbed to their highest since the GFC (Figure 6).

Figure 5: Fed easing returns (Source: Canaccord Genuity) Figure 6: Gold (black, RHS) vs 10Y TIPS (grey, RHS invert) 2018-2023 (Source: ASA)



The subsequent weakening of the US dollar over the quarter came as little surprise to observers of the bond market with long dated treasury bonds during the quarter at one stage yielding close to 50 basis points below a 6-month T-bill. This aversion to purchase the increased bonds the US Fed has pumped into the market is even more revealing in the buying preference of gold over treasuries by central banks over the last two years (Figure 7). This coincides with the US Government enforcing financial sanctions on Russia, freezing \$350B of its foreign currency reserves and messaging to all nations to toe the line or else. Predictably, with Russia’s abundance of raw materials, these moves had little impact on trade and emboldened BRICS partners to seek alternative means of trade settlement away from the US dollar. Furthermore, the imminency of the sanctions and threat of reserves confiscation gave central banks further impetus to revert to bullion. 2023 likely will have been another record year of purchases (Figure 8) and along with 2022 being twice the average of the previous decade.

Figure 7: Gold (blue) and US Treasuries (red) by foreign central banks (US\$B) Figure 8: Central Bank Gold Demand (Source: World Gold Council)
(Source: Gold Switzerland published January 2024)



Gold ETF outflow that has been in place since April 2022 has been the most sustained since the down legs in gold price over H2'20 and 2013. Over 2023 European ETFs contributed two thirds of outflow totalling US\$11B as a result of investor taking profit due to a stronger Euro-dominated gold price. Despite these negative selling pressures, the gold price has grinded higher which speaks to fundamental physical demand (see Figure 2) particularly from the East (China accounting for +60% of net physical inflow over 2023) as investors look for alternatives to the collapsing commercial property market.

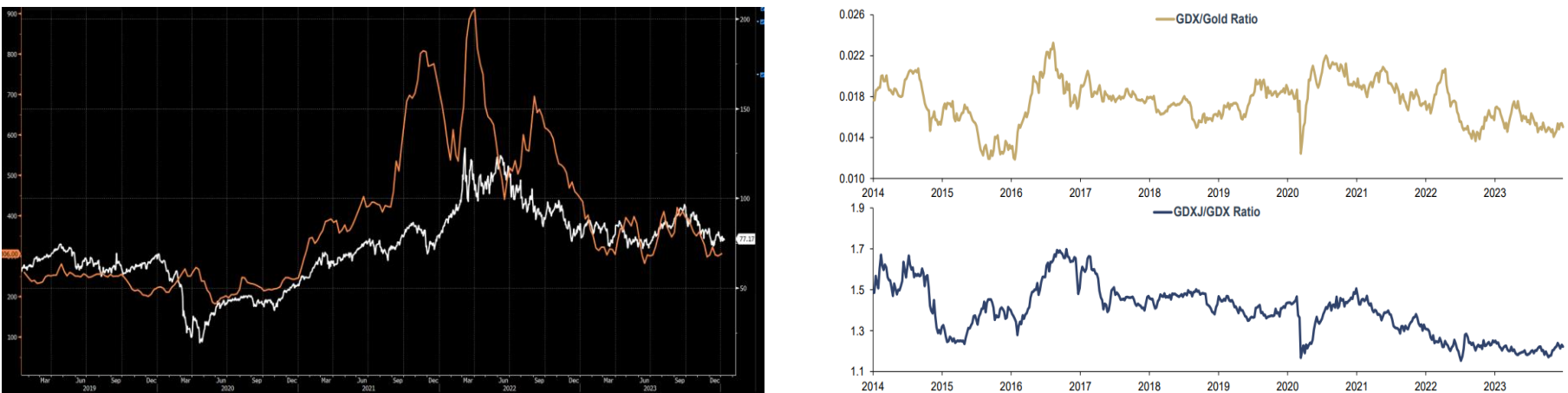
If gold ETF's liquidation were to reverse on the back of a US Fed rate pivot, as evident in Dec'15 and over 2018 (Figure 9) and with little reason for the structural central bank buying to reduce, a coordinated demand response could place a support rather than resistance level in the gold price around \$2,000/oz powering gold to its next up leg.

Figure 9: ETF Gold inventory flow (LHS, tonnes, purple European, green US, red other) vs gold price (RHS) (Source: World Gold Council)



The negative sentiment driving ETF liquidation has pervaded gold equities over most of 2023 with most producer indices (GDX +8%, HUI +6%) eking out returns inferior to the return on bullion (13%). One of the central reasons has been the perception that rampant cost inflation (supply side and labour) over 2021-22 has persisted, where in fact key inputs (explosives (Ammonia Nitrate as a proxy) and oil, Figure 10) have actually tapered down over 2023. This has led to improved cash flow margins of producers that are yet to be reflected in valuations. For instance, senior TSX producers (+500kozpa) trade at 2024 Free Cash flow yields of +10% with juniors (<500kozpa) closer to 20%. Historically these have traded at 6-10% respectively and we expect this gap will close at the current strong gold price. While the disconnection between gold price and company valuations is slowly bouncing off its historic base (Figure 11) we suspect that the industry propensity to diminish value needs to be reversed to attract the potential generalist investor.

Figure 10: Oil (orange, RHS) ANFO (white, LHS) Price 2019-2023 (Source: Bloomberg) Figure 11: GDX/GFDJ/Gold Ratio 2014-2023 (Source: ASA)

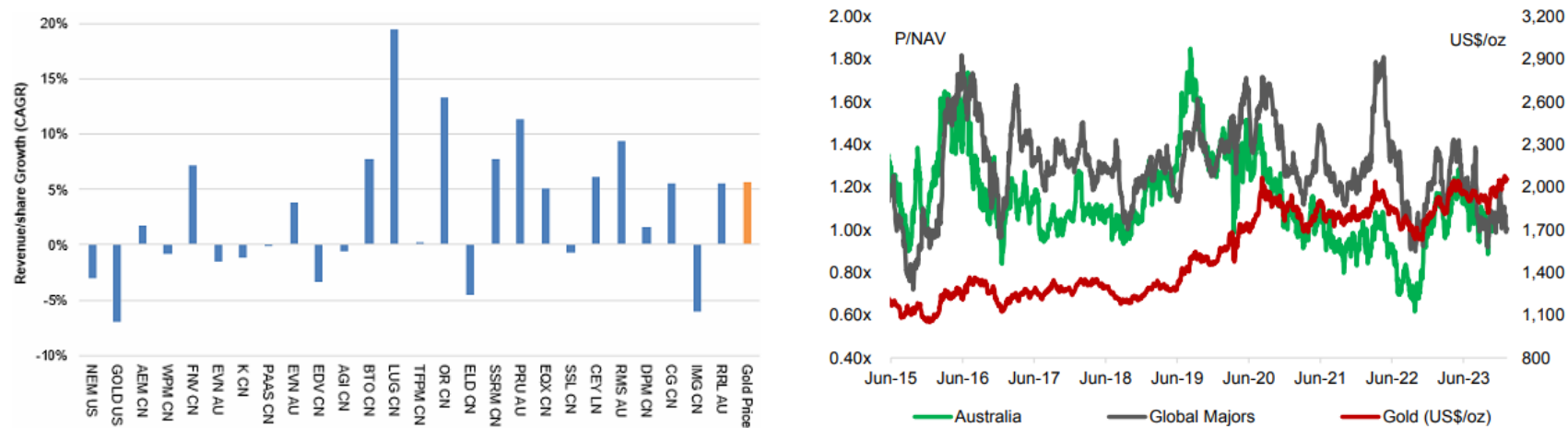


This reputation of diminished returns is not unfounded and highlighted in Figure 12 below even when we remove the cost side of earnings. Figure 12 illustrates revenue (US\$) growth (CAGR) on a diluted share basis for various major producers/royalty company over the last decade where data was available. This points to only a small set of companies that have been able to sustain revenue growth ahead of the gold price (6% growth) and demonstrates the propensity of companies to grow production (that's if they are actually growing!) without due consideration of the resultant share holder dilution. While we accept that, where any scrip is offered for an acquisition, it will incur a time lag as the projects come online to replenish existing assets, we highlight that our data set of a decade provides a reasonable time to critique the discipline of a company's M+A strategy. Alternatively, revenue not keeping pace with gold price appreciation could also be due to each company's average gold selling price, which reflect poorly managed hedging policies!

We find this a useful measure to scan for opportunities on the target side, cognisant of the deep discount that developers provide vs producers and expect this segment of the industry to be most active in consolidation over the near term. With the majority of major producers possessing relatively low gearing, yet dwindling reserves, we advocate for companies to consider using greater portions of cash to fund potential acquisitions owing to the discounted value (i.e. P/NAV<1.0x) that the majority of producers trade on.

Figure 12: Compound growth of revenue per share of major gold producers and royalty companies of reported years 2014-2023 (Source: Bloomberg, Seraya Research).

Figure 13: Consensus P/NAV Multiples vs gold price 2015-2023 (Source: Factset, Goldman Sachs Research)

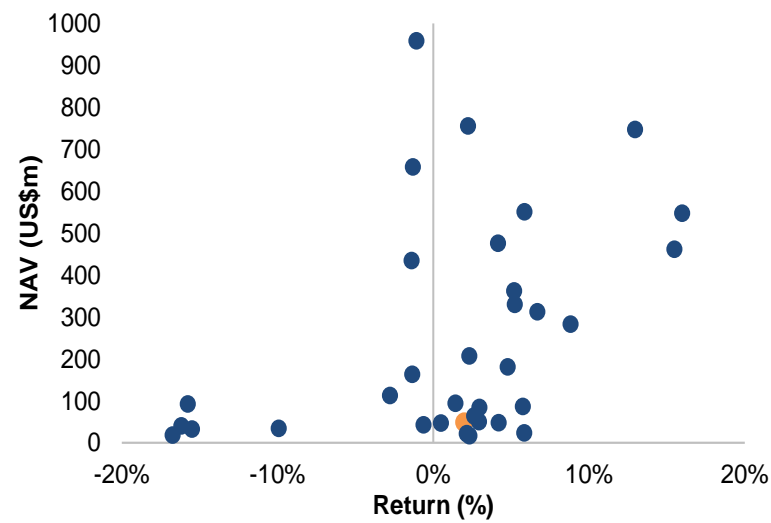
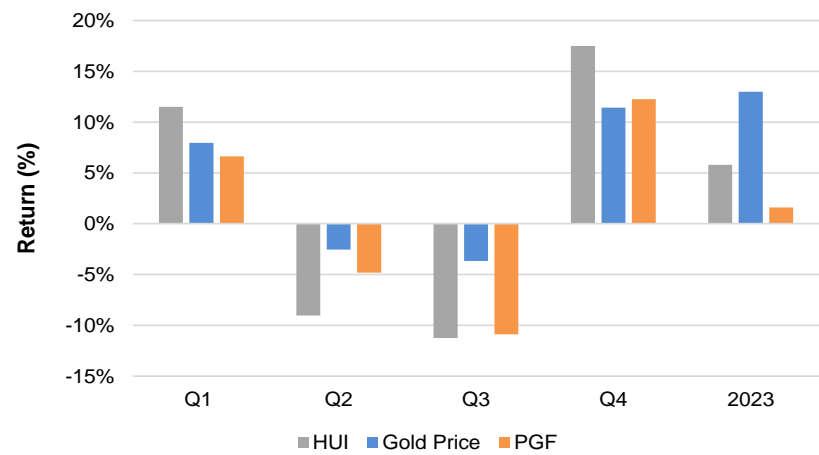


Phoenix Gold Fund (PGF) Portfolio Update:

Over the December quarter the PGF returned 12.5% in line with the gold price (12%) and the HUI (17%) and GDXJ (17%). The PGF returned 2% over 2023 (Figure 14) vs the HUI (6%) and the gold price (13%) which oscillates from a low of \$1811/oz in late February and closed near an annual high of \$2,078/oz as the US Fed rhetoric turned dovish suggestive of a pivot from the interest rate tightening cycle of the last two years.

Figure 14: Peer Q3'23 returns PGF orange (Source: Bloomberg)

Figure 15: Peer 2023 Returns, PGF Orange (Source: Bloomberg)



A peer comparison (Figure 15) of active gold funds (<US\$1B) indicated the majority of the group closed out 2023 similar to the HUI (6%) and dependant on portfolio composition likely faced lower than average trading volumes for much of 2023 by using the benchmark GDXJ as a proxy. As Figure 16 indicates the run up in the gold price over DecQ saw some pent-up interest return to the junior end of the gold market and we took advantage to exit some low conviction holdings within the portfolio.

The rally in the market fed down to the junior market as explorers (seen in the Sprott Junior (SGDJ), Figure 17) bounced off lows last seen a year previous in September 2022 and trading near historic lows in terms of valuation (Enterprise value/ounce). Valuations remain highly attractive in cash flowing producers which is where we have directed our attention. Having previously made a handsome profit from the stock in 2021, we returned Karora Resources (KRR-TSX) to the portfolio, viewing the company as being well placed to self-fund and execute a material increase in production from 130 to 200kozpa from its Beta Hunt operation in Western Australia.

Figure 16: 2023 Trade Volume of GDXJ vs Gold Price (Source: Bloomberg)

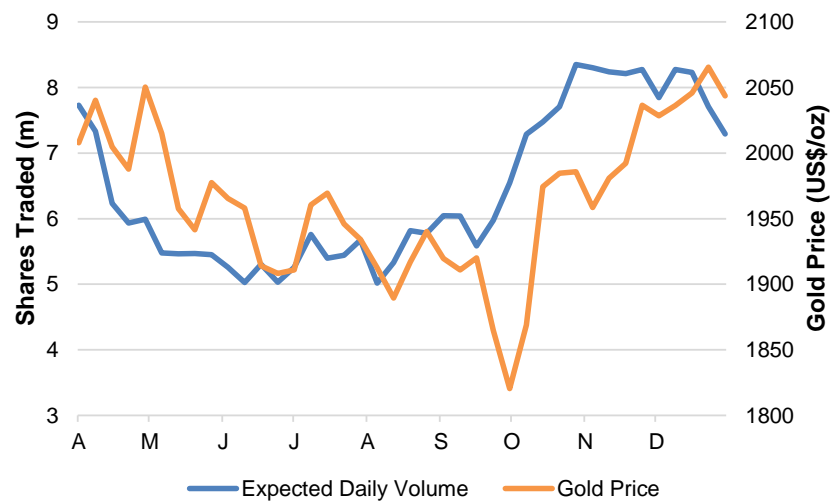
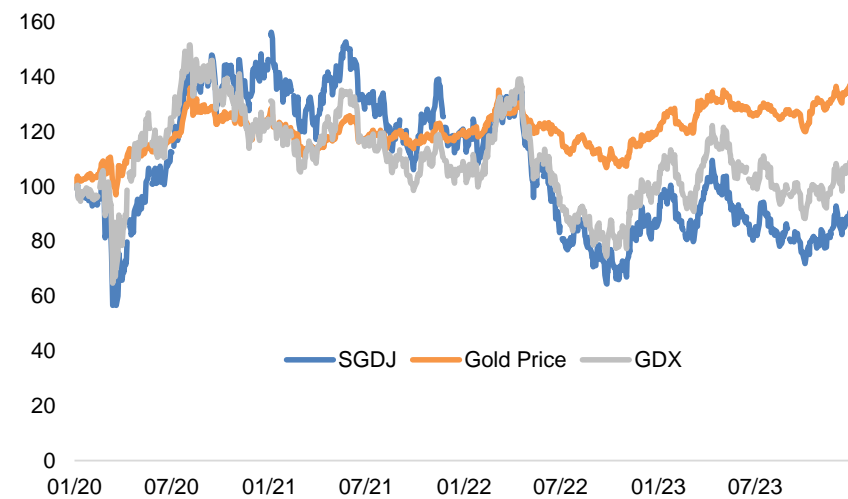


Figure 17:SGDJ, GDX, Gold Returns 2020-2024 (Source: Bloomberg)



Best performers this quarter included;

- Rusoro Mining (RML-TSX) which appears to be close to a favourable outcome in its prolonged arbitration case against the Venezuelan government. To help fund the litigation against the Venezuelan Govt, Phoenix made a loan advance, in March 2023, at a 75% discount to maturity value, with associated warrants to the equity at 10 cents. Recent news on the progress of collecting the arbitration award drove the stock price from 5 cents in early 2023 to 85 cents today. We continue to hold the loan advance at cost, 75% below what we hope to recover. Post the quarter end, a further judgement cleared the way for Rusoro to join claims on the auction proceeds of Citgo's US based refinery assets, the majority that are owned by the Venezuelan government. The proceeds of the auction are likely to enable all claimants to recover their claims in full.
- Shanta Gold (SHG-LN) with an expanding production base in Tanzania/Kenya was subject to an all-cash offer at a 23% premium (to 3M VWAP) by a major Mauritius based investor who will look to take the company private. Having been long term shareholders and admired the ramp up of two operations in Tanzania whilst preserving the balance sheet, we are a little disappointed on the sale price (£142m for a +100kopa producer) but note the company's CEO has stayed on since his departure notice in April and have sensed the obvious management fatigue.
- Omai Gold Mines (OMG-TSX) was up 85% after encouraging drilling at its West Wenot target to add to its 3.7Moz resource base in Guyana. With an updated resource and PEA study soon after in early 2024, investors are recognising the deep discount (C\$6/oz vs C\$100/oz resource) it is trading at to its peer Reunion Gold (RGD-TSX).

Detractors this quarter included;

- Thor Exploration (THX-TSX) which has been a core holding for the fund however its share price retreated 16% as production was lower, owing to plant upgrades and waste stripping at the Segilola project, and the cooling investor sentiment towards the lithium exploration targets they have in Nigeria. Ahead of these events we took some profits.
- Signal Gold (SGNL-TSX) was off 35% with repeated capital raisings through the year at increasingly dilutionary terms. We however remain invested recognising SGNL's Goldboro project (1.12Moz reserve at 2.26g/t) in Nova Scotia is one of few Canadian based, EIA approved, +10 years gold developers. We note the recent takeover of Marathon Gold (MOZ-TSX) which is building the near-by Valentine Lake project to highlight the likely corporate interest in the region.

With 2024 a US election year, the meddling in Ukraine and Middle East heightening geo-political tensions and the onset of a Federal Reserve interest rate pivot, we will continue to position the portfolio be the beneficiary of what has been a massive dislocation of capital away from the sector. We appreciate your ongoing support in this pursuit.

Yours Sincerely,

Larry Hill

David Crichton Watt