PHOENIX GOLD FUND

14 July 2014

Dear Shareholder,

It is now three and a half years since your fund peaked in terms of valuation. That is a long time for any over-extended market to consolidate its gains but we believe that the consolidation is now complete. Gold bullion peaked slightly later than the gold stocks, hitting a high of $1921 an ounce in September 2011 so it has been consolidating for 34 months. There remain many market analysts who continue to pronounce gold in a bear market and/ or the need for a final wash-out down to $1050 per ounce before the final leg of the secular bull market can begin. However, three years is a long time for a market to keep making new lows and the gold market has now tried and failed to plunge below the $1200 an ounce level three times over the last twelve months.

The fundamental reason to maintain an exposure to gold in one's portfolio is stronger than ever, in that total global indebtedness is now 40% higher than it was in 2008 when excessive debt levels first manifested themselves as a threat to financial markets. Although Western corporations and consumers have generally been reducing indebtedness, the Governments have more than compensated for any deflationary deleveraging pressures by adding massively to sovereign debt levels. Several states in Europe have been tottering on the brink of bankruptcy for years now but have been spared the embarrassment of default by virtually forcing the commercial banks to buy Government bonds (by categorising all EU member Government debt as a"Risk Free" asset in a bank's balance sheet). Thus Spain, Italy, Ireland, and even Greece, have been able to borrow ten year money at 3% or less and thereby keep the party going and the budget deficits flowing! Clearly there is no intention of tackling the problem of over-indebtedness and, until it is reduced, then there can be no real growth so devaluation of the currencies is almost inevitable. The question is when.

As always, the markets themselves will know and so we can only look to prices to tell us where and when we are likely to be going.

US$ Gold Weekly

Most technical analysts in studying the chart of gold prices above, will point to the extended topping pattern and then to the equally extended bottoming pattern which is given greater strength by the "inverted head and shoulders" that is evident in the above weekly chart of gold The fact that gold has not broken decisively below $1200 on three attempts over a period of a year suggest that there is strong buying in this area. If gold can soon breach the neckline of the head and shoulders at $1400 this will be confirmation of a resumption of the secular trend and probably lead to a quick test of the next resistance level at$1550 to $1600. Further progress through $1600 could lead quickly to new highs.

Of course for such price levels to be achieved there will have to be a resurgence of fear of economic stagnation, sliding equity markets, and or bond default but this is not difficult to imagine. (Yesterday saw horrid Machine tool order numbers in Japan, and missed interest payments from a major banking group in Portugal.

Perhaps the most convincing evidence supporting the thesis that the uptrend is being resumed is the performance of the gold mining stocks. While these too show a reverse head and shoulders formation, suggesting a powerful bottoming process over the last year, they have tended recently to lead the bullion price. The GDXJ, the ETF of the junior or more speculative gold miners, shows this clearly and the heavy volume since the beginning of this year suggests that institutional money is returning to the sector. We interpret this as a very significant signal.

GDXJ Weekly

Undoubtedly, in the very short term this market is overbought and needs to pause before continuing the trend. Some stocks have doubled in recent months and, although several measurements of sentiment in the gold and gold mining stocks remain very depressed, there is little question that money is again available for good projects if the price is attractive. This was not the case a few months ago. As an example, we recently participated in a placement of new shares by Guyana Gold. The issue was priced at C$1.80, well down from the high of $11.79 where it traded back in 2010. The issue was heavily oversubscribed and the stock, one month later, is now trading at $3.10!

Guyana Gold Weekly

Sentiment towards the gold stocks is certainly recovering although some stocks remain friendless. We have been fortunate in that the fund's largest position has been in Franco Nevada, the Canadian royalty company run by Pierre Lassonde. Despite the devastation in the gold mining sector, Franco Nevada, in recent weeks, has reached new highs.

Franco Nevada weekly

During the quarter under review, your fund continued its steady recovery closing at US$566.76 up 12.55% for the quarter and 26.44% year-to-date. We are very conscious that this is still a very long way from the highs of $1800 recorded at end December 2010 but we believe that this level is very achievable again. Many of the companies in our portfolio which hold good assets but have been unable to finance them into production have seen their stock price fallen to what would normally be considered as less than option money. We are working with several of those companies to ensure their survival and to keep them from the hands of predators. Clearly there are enormous opportunities in the sector and we hope to be able to seize some of them.

Yours sincerely,

David Crichton Watt