10th July 2023

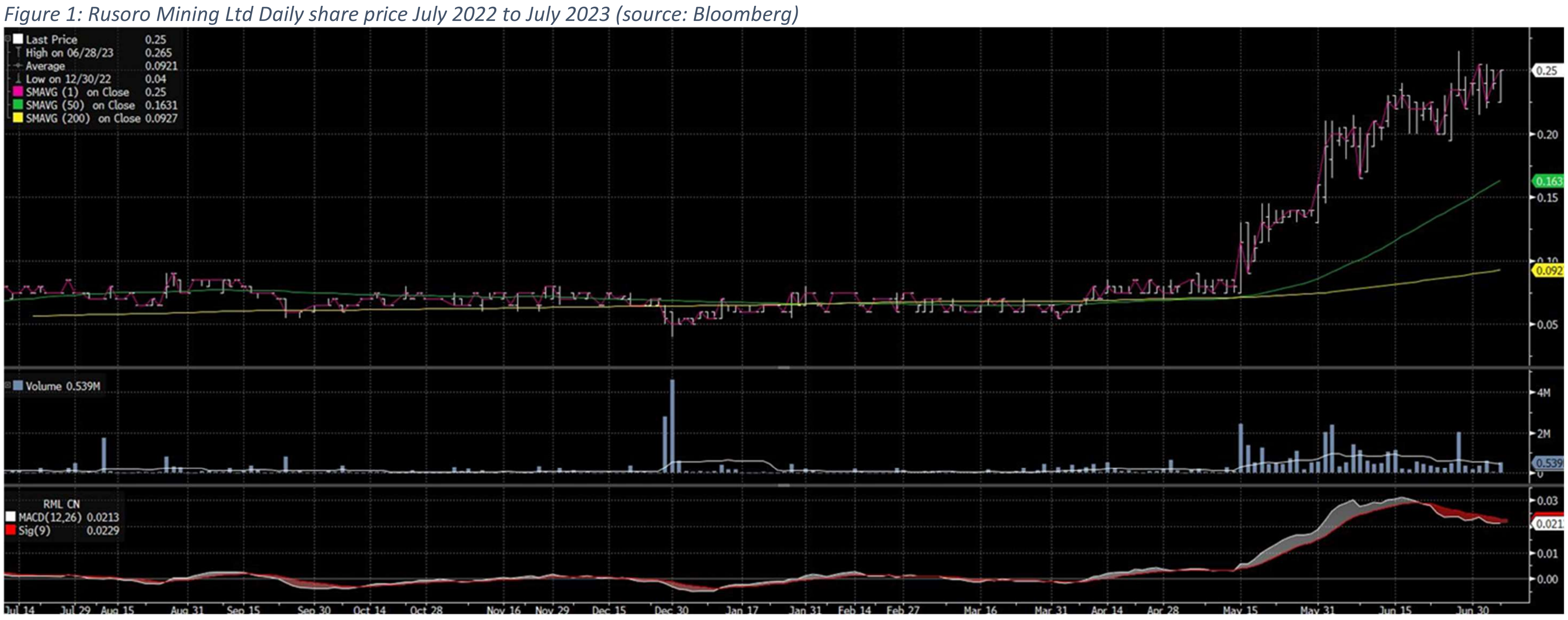
Dear Shareholder,

We live in a world of total delusion where everything is exactly as we would like it to be and far from reality. We are in the midst of an existential battle between Russia, aided and abetted by China and Iran and the NATO gang, a battle which, at any moment, could go nuclear. Yet fiat currency is superior to gold and silver because we need the fiat currency to be able to speculate. Germany has closed all its nuclear power stations (50% of France's are shut down for refurbishment) and shut off all access to cheap Russian oil and gas, yet is going to force everyone to get rid of their oil-fired central heating and gas stoves and move to electric heat exchange pumps and cookers. Base load power will come from burning lignite! Internal combustion engines are to be banned soon and everyone is to drive an electric vehicle, thereby putting greater strain on electricity supply as well as copper, nickel, cobalt and lithium supplies. The wheels are coming off the European economies, yet their currencies and stock markets are all riding high. After all, "what could possibly go wrong?"

Everyone is busy chasing artificial intelligence stocks, or lithium stocks as these are flavour of the month in the speculating communities but no-one is interested, apart from those boring Central Bankers, in gold or silver (the open interest in silver futures contracts on Comex is the lowest since 2012). As a result, our fund has been bouncing along the bottom. However, this will change. American investors cannot conceive of anything other than their U.S. Dollar as a medium of exchange, and rely totally on their ability to print a trillion dollars more each year to fund their trade deficit. Yet, the confiscation of Russian Dollar and Euro Reserves has convinced all the Central Banks that return of their reserves is more important than the return on their reserves so we have seen steady accumulation of gold bullion; and they will not be leaving it for safe custody with the Federal Reserve or the Bank of England. While the Ten-Year Real interest rate (as measured by the TIPS yield) closed last week at a new recent high of 1.785%, surpassing the high of October 2022, gold during that period has risen by $300 an ounce. Clearly the rest of the world buying exceeds American selling. On the agenda of the BRICS meeting in Johannesburg in Late August is the introduction of an alternative trading currency, rumoured to be partially backed by gold. It is certain that China, Russia, and much of the world is aware that destroying faith in the dollar will stop American aggression and, of course, as most debt is denominated in dollars, will depreciate everyone's debt. These are certainly interesting times!

Although our fund has been bouncing along the bottom, we have had a few signs of recovery. The fund held for many years an investment in what promised to be a great mine, with 14 million ounces of good grade gold. Unfortunately, the mine was located in Venezuela and firstly the Government obliged the company to sell its production to the Central Bank of Venezuela, and then in the local currency at the official exchange rate (half the black market rate) and thereby making the mine unprofitable. Eventually, the Government nationalised the mine. International arbitration awarded the company compensation of over US$1 billion plus accrued interest which today has taken the sum due to US$1.8 billion. The Venezuelan Government agreed to pay, and indeed tried to pay the first $100mm during the Trump Administration but, as he had imposed sanctions on the country and set up a government in exile, the payment, which was sent in US Dollars, was immediately confiscated. There have been endless lawsuits around the world and the company has struggled to borrow money to fund these efforts. My own investment company had agreed to lend the company US$1.5mm with the company committing to redeem the loan for US$6mm out of the first $100 mm it successfully recovers from the Venezuelan Government. In addition, the company agreed to issue warrants to subscribe its shares at 10 cents. Recently the shares of the company have risen from 7 cents to 24 cents as negotiations with all Venezuela's creditors is to begin on the 10th July with JP Morgan representing Venezuela. In the meantime, after considerable internal discussion, we decided that, since the Phoenix Gold Fund already held shares in the company, it might create a conflict of interest if my own investment company were to lend the money and acquire the warrants. So we agreed that the fund would make the investment (speculation!) and my company would provide the funds by subscribing new units in the fund. Hopefully the negotiations for repayment of Venezuela's debts will be successful and the fund will receive $6mm and will benefit from a strong appreciation of the share price. This has been a long and painful saga, but the signs are very promising as the below chart of the company's share price suggests. There are. 565 million shares of Rusoro on issue so receipt of an award would have a dramatic impact on the company's shares.

Figure 1: Rusoro Mining Ltd Daily share price July 2022 to July 2023 (source: Bloomberg)

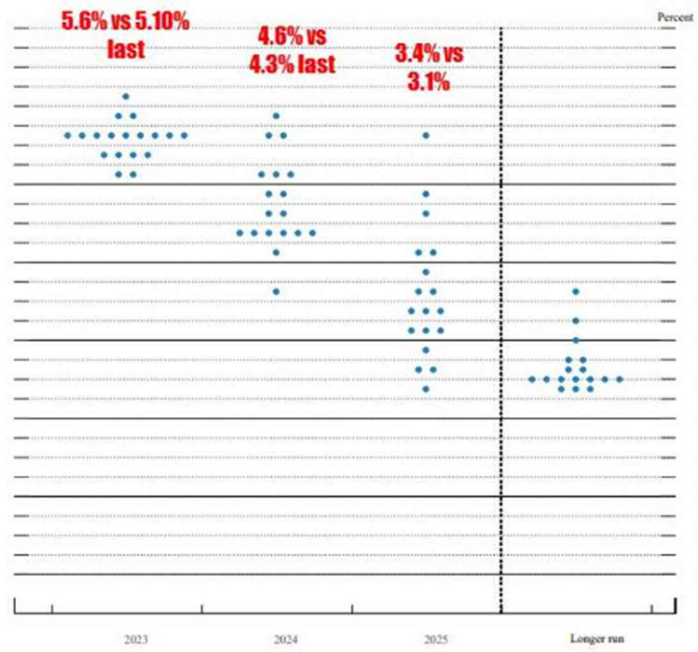


Over the June Quarter the Phoenix Gold Fund slipped by -4.6% but ahead of peer indices (HUI (-9%) and GDXJ (-10%)) against a 2% fall in gold price influenced by factors we discuss overleaf. Despite this, as gold breached $2,050/oz during the quarter, we used the improved liquidity to take some profit in our more heavily weighted positions, such as Heliostar Metals although the moment proved unfortunately quite fleeting. Depressed trading liquidity suggests sellers have reached exhaustion in long term holdings like Cabral Gold and Andean Precious Metals and we selectively participated in small follow-on placements in existing positions. We maintain an improved cash position to assess the discounted valuations of explorers and producers alike. With that said, I will hand over to Larry Hill to give you his view of this delusional world!

Over the June quarter the gold price opened at $1970/oz and closed at $1,920/oz and, given the wild gyrations of the past three years, made for an unusual stasis. In May the gold price re-tested the triple top that has formed since 2020 around $2,060/oz in the aftermath of the long-awaited rate pause by the US Fed in April. This 'holding' stance was taken despite the entrenched wage pressure that continues to weigh on future inflation policy. While the headline inflation rate in the US has now declined each month for the last year, it still stands above target at 4%. Towards the end of June as recessionary fears subsided, support for the gold price appears to be forming at $1,920/oz having tested the 200-day moving average at $1,820/oz. Weighing on the gold price are expectations of at least two more rate rises by the Fed over the second half of the year, projecting a more tapered outlook on the long-term rates (elevated dots on Figure 3) than was anticipated in late March.

Figure 2: Gold Price (RHS-US$/oz) vs ETF gold holdings (LHS –Moz) (source: Van Eck)

Figure 3: US Fed Dot changes March/June FOMC meetings (source: Bloomberg)



The recent rate pauses and stance by Chair Powell of being 'data driven' has resulted in a more tepid response to the US Dollar (Figure 5) likely a reflection of the perceived risk of an upcoming recession. Whereas the strength of the US dollar over 2022 (see Figure 5) was a significant headwind for the gold price, the treasury yield curve, a reliable barometer of economic health, has inverted (i.e the 10-Year minus 2-year spread being negative on Figure 4) since October 2022 and is at its lowest level since the Volcker era of 1981. This usually presages a recession with a 6–12-month lag experienced prior to each recession bar one since 1955 according to a recent research report from the San Francisco Federal Bank.

Figure 4: 10-Year minus 2-Year Treasury Constant Maturity (source: Federal Reserve)

Continued growth concerns along with a weaker US dollar have historically seen a boost in ETF gold holdings as experienced in the 2008 and 2020 US recessions (see Figure 6). Recently, the opposite has been evident (Figure 2) where ETF have continued to divest gold holdings from September 2022 despite the rebound in gold price from $1,600/oz. Should these lift from 92 tonnes to levels of 110 tonnes that previously corresponded to the current gold pricing of $1,900/oz, we view there could be a substantial lift in physical demand.

Figure 5: Indexed US Dollar and Gold Price. (source: Bloomberg)

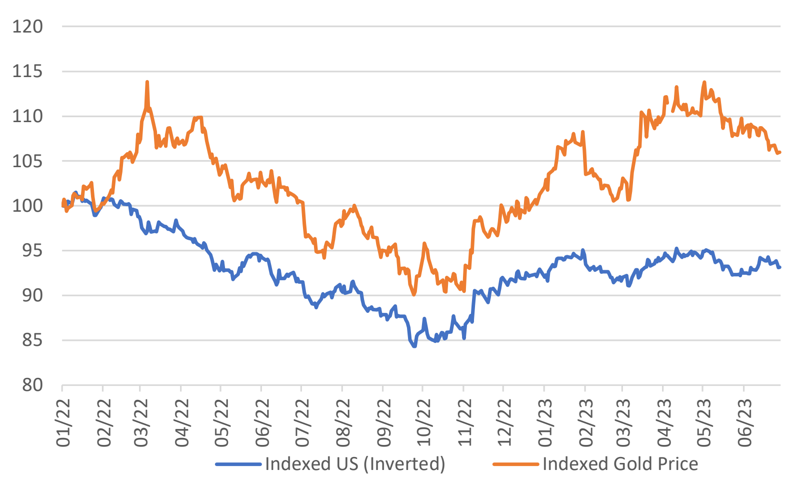
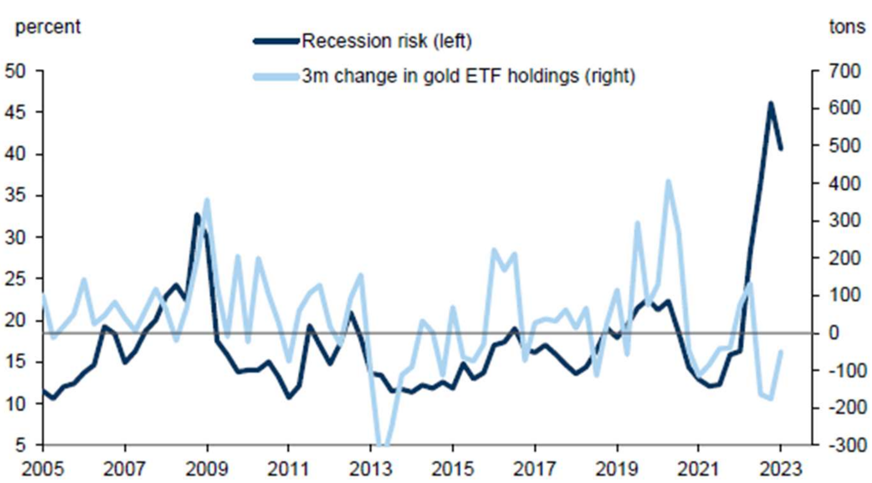


Figure 6: US Recession index (LHS) vs EFT holdings (RHS) (source: Bloomberg)



The economy of course only points to one part of the calculus within the Fed's thinking given the ballooning debt of the US Government. Since adding over 25% of all outstanding debt since the beginning of 2020 to stand at US$32.2T, congress in June agreed to raise the debt ceiling to no set limited until 2025. This carte blanche, heading into the US Presidential Elections in late 2024 will be tempered by the emerging reality of the short-term maturity profile of US treasury debt (see Figure 8). Since the lift in the fund rate from zero to 5.25%, the latest Congress Budget Office (CBO) projections from February 2023 predict that net interest costs will increase to represent 20% of federal revenues by the end of the decade. Of more alarm, these are based on the 3-month treasury rate holding at 4.3% (now 4.7%) and moderating at 2.3%, highlighting the balancing act the Fed will have to conduct when assessing further rate rises. As economic conditions deteriorate, we expect the gold price will remain supported on the back of a weakening US dollar and a risk off sentiment.

Figure 7: Projected US Debt repayments US$B (source: Peterson Foundation)

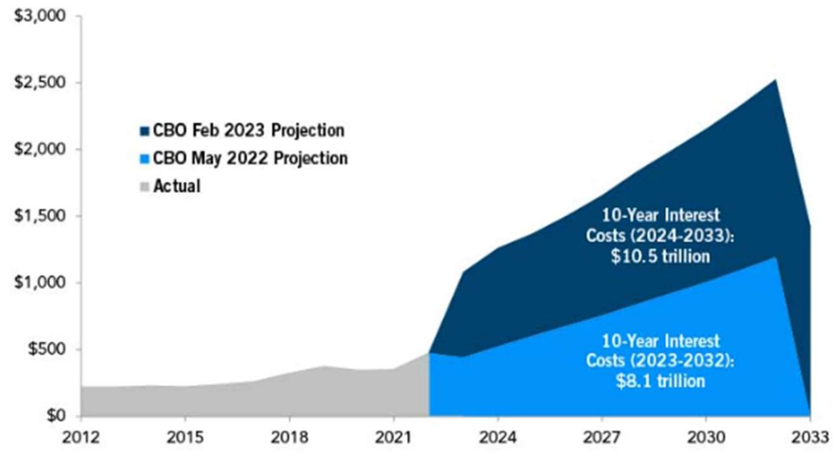
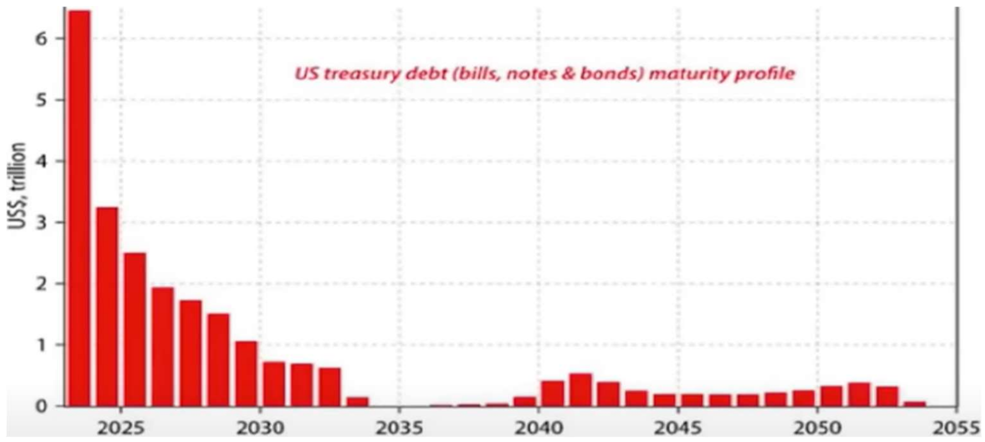


Figure 8: US Treasury debt (source: Gavekal Research, Bloomberg)



As we write, gold producers that we invest in are mostly reporting improved quarterly performance with cash being finally built. This makes for a pleasant surprise to the guidance downgrades, capital expenditure blowouts and general malaise in stock performance over 2022. Supply bottlenecks appear to have eased, key cost inputs are declining (oil -35% YoY) and labour shortages have reduced. Against this improved profitability outlook it would be expected that investor confidence would be renewed, however the main indices (HUI and GDXJ) were close to 20% down over May and June reversing the previous YTD gains.

While it can be accepted that the discounted cash flow multiples on offer (~6-8x P/FCF) in producers reflect a doubt of cost control, we point out that these have reduced from 10-12x in the last run up in the gold price towards $2000/oz in 2020. Notably, a similar discount of ~30% is also apparent in major precious metals royalty companies that should be largely immune to operating cost pressures. Reflecting improved business conditions, 60% of the top 50 gold producers provided positive free cash flow yields and moderate gearing (on a Net Debt/EBITDA measure) so something is amiss.

In our view, the reasons for this discount speak to the lack of clearly articled growth plans from many gold producers. Growth through acquisition such as the current US$19B spent by Newmont on Newcrest reflect a deteriorating quality of organic projects that highlight insufficient investments in exploration resulting in a lack of new gold and silver discoveries. This is compounded by the lack of commitment to develop high grade underground or geologically challenging deposits which has seen ore feed/cut off grades on average decline (see Figure 9) and unsurprisingly operating margins squeeze particularly to those with hedging exposure. The ability to replenish production with sufficient quality ounces forms a key part of our investment criteria.

Figure 9: Average head grades- ASX producers (source: Goldman Sachs)

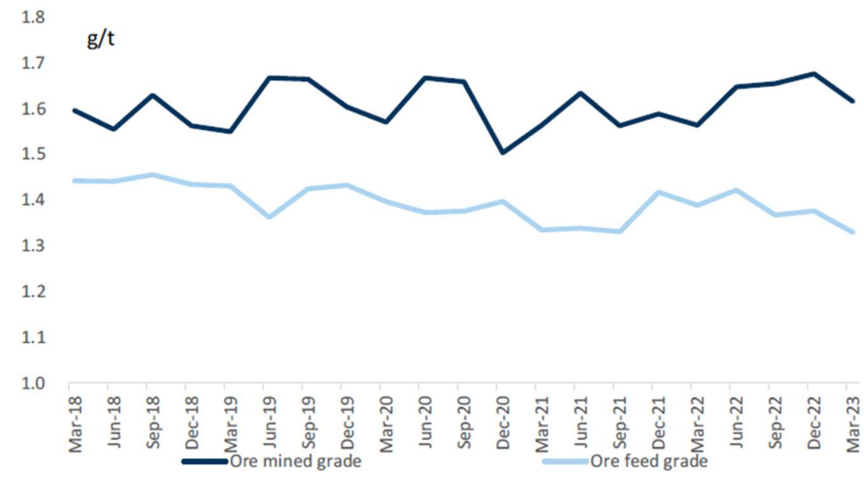
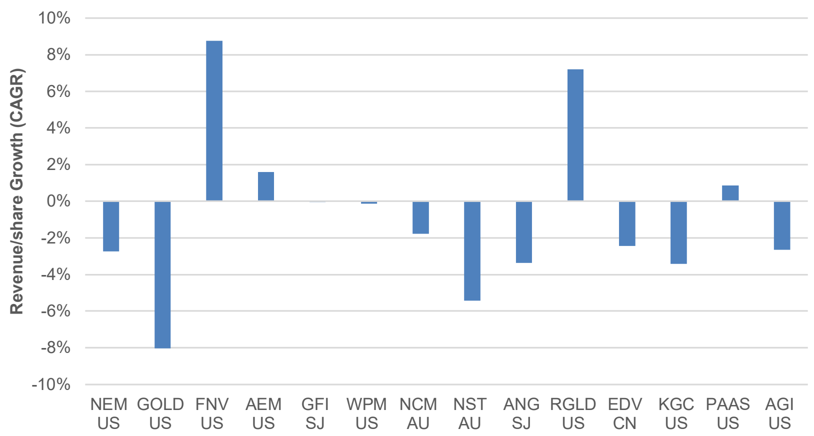


Figure 10: Top GDX companies revenue growth (CAGR/share 2012-2023) (source: Bloomberg)



Factors such as a drop in management quality, more onerous permitting, and increased ESG focus has seen many major mining companies inclined to ultra-conservatism, prioritizing returning capital to shareholders over investing in current and future production. An obvious measure of this for most of the large gold producers (see Figure 10) despite a relatively strong gold price (i.e unit price) revenue has barely grown as quick as the shares they have issued. With the propensity to acquire ounces at low valuations for the contained ounces, we see that this sets the scene for high quality development stage companies to benefit from the inevitable need for reserve replenishment.

These are the companies we will continue to research and to invest in, and as always we appreciate your support in entrusting us with this responsibility.

Yours Sincerely,

Larry Hill

David Crichton Watt