



Email Sent to Clients on 28<sup>th</sup> November 2011:

**A timely reminder on Hinde Gold Fund in the wake of the MF Global collapse**

Dear All

Now is a very pertinent moment to remind investors about Hinde Gold Fund's structure. The recent collapse of MF Global draws attention, once again, to the many shortfalls in the financial system. The firm moved away from its core brokerage business under the stewardship of Jon Corzine, who was appointed chairman and CEO in March 2010. Corzine had big plans for the firm, believing he could turn it into a Goldman Sachs-like investment bank. Unfortunately, this manifested itself as a huge leveraged bet on the sovereign debt of eurozone nations that in recent months went very sour. This culminated in MF Global filing for bankruptcy on the 1st November, one of the ten largest bankruptcies in US history.

A buyer may have been found for the firm except for the glaring \$600m hole in customers' funds that should have been segregated money. This figure quickly swelled to a reported \$1.2 billion, a quarter of all client funds that MF Global was supposed to have held separate from its own funds. Many investment funds and individuals are unable to get their money back as funds are frozen until the liquidators can ascertain what happened. There is also the risk of clawbacks: clients who withdrew money close to the firm's demise may be forced to pay some or all of it back. Whatever transpires, this has shaken trust catastrophically and the ramifications for the market as a whole will be profound.

**Hinde Gold Fund was designed to be a safe, efficient and profitable vehicle for investing gold. The very skeleton of the Fund was constructed with exactly the sort of misfeasance seen at MF Global in mind, and a general scepticism towards the financial system as a whole.**

**At the core of Hinde Gold Fund's strategy is a holding of 75% of assets in physical gold bullion, stored in the secure vaults of Swiss private bank BJB, in Zurich.** The gold is held in an allocated account, meaning that it cannot be leased or lent, or in any way encumbered such that there may arise a conflict of ownership. Moreover, the gold is held in a closed-custody deposit account, with all the protection of Swiss bankruptcy law this confers. Hinde Capital has a bar list, containing the bar number, purity and assayer – together giving a unique identifier – of each gold bar owned by the Fund. This exactly corresponds to the bars held in the Zurich vault, as seen and verified by the CFO and one of the directors earlier this year. An independent audit is carried out by KPMG regularly, with the next inspection due on the 30th December of this year. In short, this is as divorced one can get from the financial system without taking direct ownership of gold bars oneself.

The remainder of the Fund's assets, up to 25%, are held with our prime broker, Newedge, jointly owned by Société Générale and Crédit Agricole, two of the largest French banks. Newedge provide the service we as Fund need from a prime broker but, once again, we also chose them with the security of clients' money in mind. The socialist instincts of the French state make it highly likely that if a major French bank, like Société Générale, looked like it would fail, it would be nationalized. (During former French president Francois Mitterand's nationalization program in the early 1980s, 36 banks were taken into state ownership.) Nevertheless, should there be any uncertainty surrounding our prime broker, the Fund has the ability to transfer money to BJB, our gold custodian, without delay. **This in effect gives the Fund a reserve prime-broker, something many of our peers do not have.**



Furthermore, in the wake of the MF Global collapse, confidence in futures and options markets has been shaken terribly. There is a high possibility that MF Global was not the only firm to have transgressed and used client funds improperly. Investors have been withdrawing funds from the markets, fearful they are being used to fund huge leveraged bets of which they have no knowledge. Some management firms have decided to close down as they feel the blow to confidence is unforgiveable and irreversible.

Hinde Gold Fund, again by design, has minimal exposure to the futures and option markets. The Fund benefits from a regulatory perspective if at all times less than 5% of the Fund's assets are invested in futures and options. Thus that is the maximum the Fund will have posted for margin in futures and options at any one time. Moreover, as we believe that there are more paper claims on gold in existence than the underlying physical commodity, the Fund is structured so that it is never net long in gold future contracts. A clamour for physical gold, in short supply, at some point in the future could leave long owners of such contracts holding nothing but an empty paper promise.

In sum, we are confident the Fund is well insulated from the financial system. Another MF Global-style failure, or an upheaval in the futures markets, would leave the Fund largely unscathed. A failure of our prime broker would cause some unwanted uncertainty, but the unrescued collapse of a major European bank – while highly unlikely – would in all probability be beneficial for physical gold, where the majority of our investors' assets would remain – safe, untouched and untouchable.

Yours faithfully

Hinde Capital