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Precious Metals ETF Alchemy
GLD – the new CDO in disguise?

Hinde Capital Investor Presentation
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Precious Metal ETFs Alchemy
GLD – the new CDO in disguise?

Precious Metal Exchange Traded Funds (ETFs) have become a popular way to invest in gold and silver. In this presentation we discuss many of the important issues we believe investors should be aware of before buying these products. For our purposes we have chosen to focus principally on the State Street managed SPDR Gold Shares trust (GLD), it being the largest precious metals ETF, with a market cap of almost US$50bn.

Gold: How to Invest?

Despite precious metals still being a small part of investors' portfolios the benefits of ownership are becoming better known, yet the methods by which one invests in such instruments are less known.

The creation of 'physically backed' ETFs in our opinion has given investors a false sense of ownership and the belief they own an instrument that performs equivalent to bullion.

- ❑ Gold Bullion coins and bars 0.9999 fineness grade legal tender/ LBMA
- ❑ Gold Certificates – Perth Mint Certificate Programme (AAA rated)
- ❑ Precious Metals Bullion Funds – Hinde Gold Fund
- ❑ ETF - Gold & Silver exchange traded funds – GLD, SLV etc

Exchange Traded Funds - Bullion backed

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Exchange Traded Funds – all of the risks and none of the rewards

- ETFs ***should not*** be owned by serious professional investors
- ETFs offer none of the benefits of physical bullion ownership
- ETFs are no cheaper than owning physical allocated bullion stored and insured in secure vaults
- ETFs are not as secure as owning physical allocated bullion either via a bullion fund or an allocated bullion account
- ETFs provide no returns above the bullion price, only the likelihood of tracking at a discount or potentially failing to track the bullion price at all
- ETFs do not provide 24 hour liquidity, unlike the bullion market itself

Gold as Savings - Recommendation

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Recommendation – open allocated bullion account or invest in a bullion fund

- ❑ Open allocated bullion account with Swiss private bank

- ❑ Open allocated bullion account with Bullion bank excluding custodians of GLD and SLV

- ❑ Open an investment with bullion fund, like Hinde Gold Fund, if you are an accredited investor and want all the security of allocated gold, but also want a potential return above the bullion price

- ❑ We would recommend investors examine an excellent report just released by Solari on how to own physical gold (exception in this for us is we do not like paper certificate programs, due to confiscation risk and ownership risks):

http://solari.com/articles/Options_for_Storing_Precious_Metals/

Gold as Savings – Generic risks

Gold investing is about hedging systemic risk. Awareness of counterparty risk is essential. Cost and ownership issues are crucial to understand.

- **Systemic risk** – collapse of entire financial system, ‘cascade failure’
- **Counterparty risk** – custodian[2], sub-custodian, trustees[3], banks etc
- **Costs** – storage, insurance and fund management fees
- **Confiscation risk** – government backed paper certificates
- **Volatility** – equities vs bullion
- **Leverage** – futures and options

Gold - Can rally much, much further . . .

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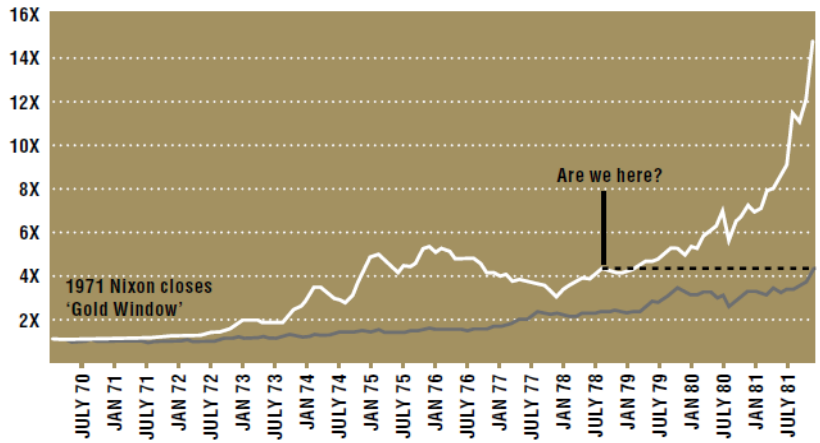
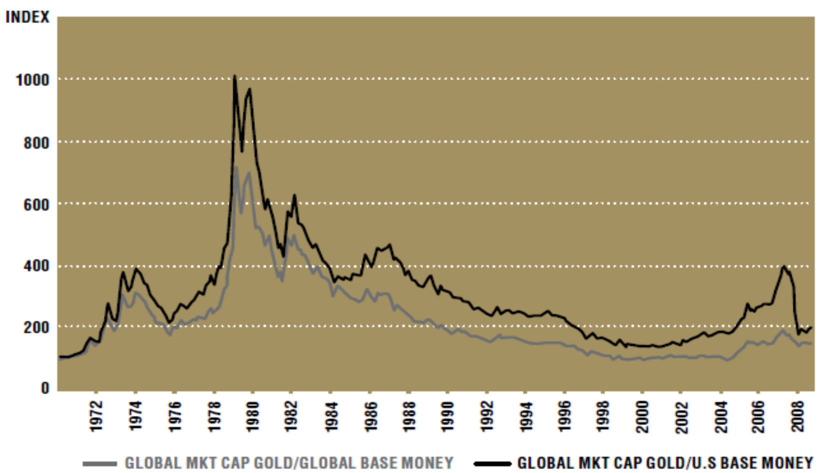
. . . but we believe ETFs are a risky way to express a gold view

GOLD REBASED FOR COMPARISON – 1970-1980 AND 1999 TO PRESENT



GLOBAL VALUE OF GOLD VERSUS G-20 BASE MONEY* & US BASE MONEY (INDEX RE-BASED 1970 = 100)



Exchange Traded Funds – What are they?

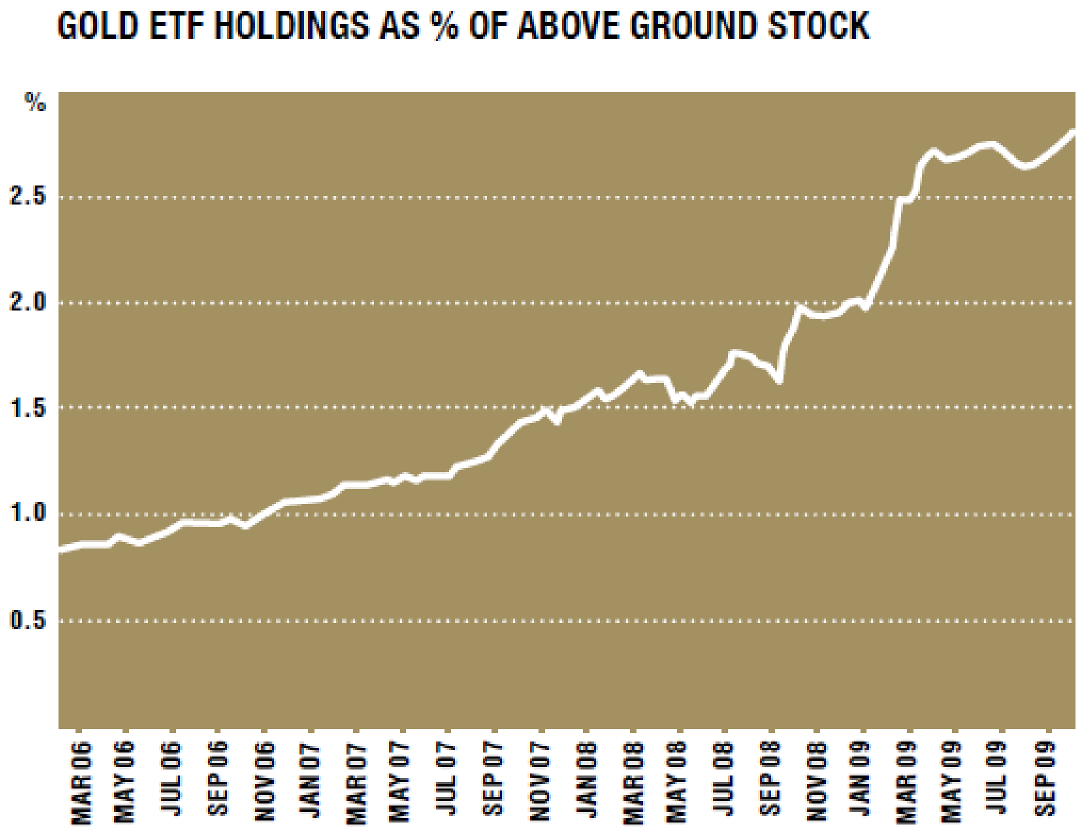
GLD (SPDR Gold Trust) and SLV (iShares Silver Trust)

An ETF is "a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on the exchange" - Wikipedia

- ❑ Authorized Participants[1] (APs) contribute defined "Creation Basket Deposits" of assets to the ETF receiving in return "Creation Units" which are then sold to investor at typically a premium over net asset value
- ❑ ETFs do not directly invest money in underlying according to a mandate as with mutual funds
- ❑ Regulation under securities law applicable to investment companies and corporate equity shares - not so for ETFs
- ❑ GLD and SLV not regulated by CFTC as not commodity pool operators eg Commodity Trading Advisor
- ❑ Rights of ETF holder limited and not governed by Investment Company Act or NYSE, and limited by prospectus of funds: lack of shareholder rights

Exchange Traded Funds – Bullion Backed

Gold ETFs have accumulated a significant amount of bullion over the past 5 years



Exchange Traded Funds – GLD & SLV

GLD (SPDR Gold Trust) and SLV (iShares Silver Trust)

- GLD and SLV shares not like equity or mutual fund shares
- Bullion ETFs ***'track'*** *or* ***'reflect'*** the price of gold or silver
- Investor undertaking ETF ownership has undivided interest in the underlying assets, and not any allocable portion of a precious metal (no specific gold is allocated to each share)
- ETF assets are held by a passive trust, not accountable as a mutual fund
- 'Like a stock', but confer none of the rights

Exchange Traded Funds – The GLD

GLD - SPDR Gold Trust

- GLD is the largest 'physically gold-backed' ETF in the world, it currently holds just over 1,200 tonnes of gold (~41mm troy oz), worth almost $50bn at current prices
- The World Gold Council (WGC) is the Sponsor of the GLD
- BoNY Mellon Asset Servicing is the Trustee
- HSBC Bank USA, N.A. is the Custodian of the Trust
- State Street Global Markets, LLC is the Marketing Agent of the Trust

Allowing for some differences, on the whole the GLD is a good representation of how other ETFs work, such as the iShares Silver Trust (SLV). Note: the SLV Custodian is JPMorgan Chase Bank, N.A., London branch, whilst the sponsor is BlackRock Asset Management International Inc

Exchange Traded Funds – Alchemy Risk?

The GLD is exposed to the following risks:

- **Accounting standards** – non-monetary and monetary gold accountancy standards are not globally standard and open to interpretation

- **Titled ownership risk** – paper derivatives do not own outright - or title - ownership of physical bullion. Can gold be encumbered? We believe so.

- **Indemnification risks** – bullion grade control, no recourse as shareholder

- **Intermediation risks** – custodians, sub-custodians, trustees, marketing agents etc

- **Audit risk** – Independent audit and verification of bullion holdings?

- **Liquidation & Tracking risk** – trustee termination

- Annual management fees and gold allocation expenses

- Tax liabilities, differing jurisdictions higher than capital gains tax

Exchange Traded Funds – Accounting Risks

Accounting Standards (for gold) – inconsistent gold accounting by System of National Accounts (SNA), IAS, Balance of Payment Manuals, illustrates how double accounting of gold is endemic, leading to 'encumbered' (ie without full ownership rights) gold in the financial system. This is often not stated.

- International Accounting Standards (IAS) on treatment of gold are inconsistent between countries, most notably Switzerland, Japan, UK and USA.

- Some countries have a wider interpretation of gold as a financial asset. International macro-economic standards are at variance with financial markets in not treating gold as a financial asset, yet treating it as a commodity [IMF BOPTEG, August 2004]

- Monetary authorities making gold loans (leasing) to commercial banks (including bullion banks), or placing gold on deposit with banks (equivalent to gold loans), are ***advised*** by IAS to treat this as ***off-balance sheet*** and ***to continue to report*** the gold as part of the official reserves [International Liquidity - Reserve Template Guidelines, Para 99 -101, Kester]

- ***But*** observing IMF's Takeda April 2006 paper, Treatment of Gold Swaps and Gold Deposits, quoting the Kester report Guidelines Para 99 on gold swaps:

Paragraph 99 of the Guidelines mentions that the monetary authority make gold deposits "to have their bullion physically deposited with a bullion bank, which may use the gold for trading purposes in world gold markets" and "the ownership of the gold effectively remains with the monetary authorities, which earn interest on the deposits, and the gold is returned to the monetary authorities on maturity of the deposits". Gold deposits are not backed by cash collateral and, in some cases, are not backed by non-cash collateral but "to minimize risks of default, monetary authorities can require adequate collateral (such as securities) from the bullion bank".

Exchange Traded Funds – Accounting Risks

Accounting Standards (gold) – inconsistent gold accounting

❑ See Takeda for full details on "Double counting of gold from outright sales of gold acquired through gold swaps or gold deposits/loans" [Takeda April 2006 p4]

❑ "Similar double counting of gold can occur when a bullion bank sells outright gold acquired through gold deposits/loans from other monetary authorities." [Takeda April 2006 p4]

❑ "These particular accounting principles ***could pose a problem*** when international statistical standards allow swapped/deposited gold to remain in the reserve assets of the gold provider." {emphasis added}

❑***There is a problem* -** swapped or loaned gold that has been sold into the financial system has led to multiple counting of titled gold

❑ **It is evident that gold with multiple owners has entered into unallocated and more importantly allocated accounts. We see it as highly likely that encumbered or leased gold could thus be in ETF products.**

Exchange Traded Funds – Title or Ownership Risks

Title – is distinct from possession, a right that often accompanies ownership but is not necessarily sufficient to prove it. In many cases, both possession and title may be transferred independently of one other.

Allocated and Unallocated accounts (definitions from GLD Form 10-K):

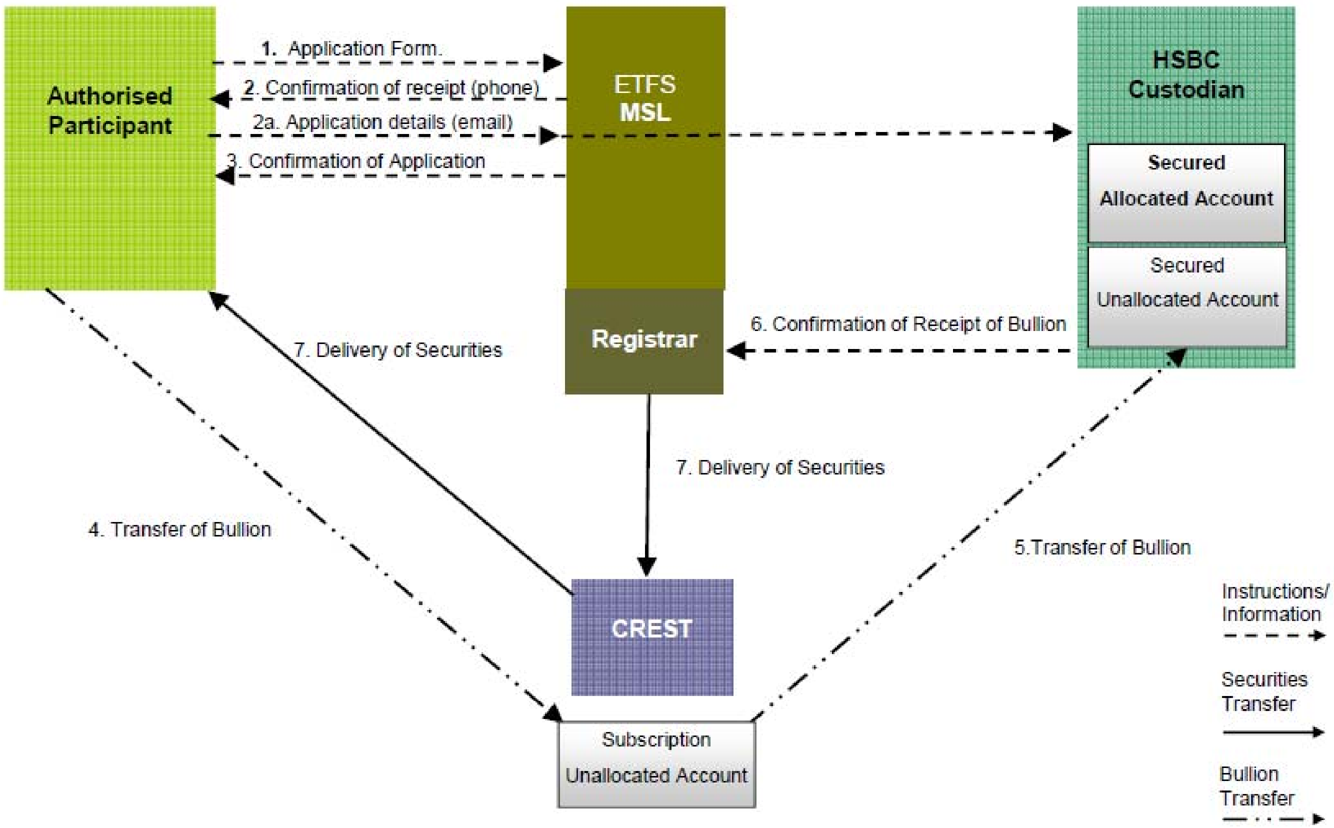
- “An ***allocated account*** is an account with a bullion dealer, which may also be a bank, to which individually identified gold bars owned by the account holder are credited. The gold bars in an allocated gold account are specific to that account and are identified by a list which shows, for each gold bar, the refiner, assay or fineness, serial number and gross and fine weight. Gold held in the Trust’s allocated account is the property of the Trust and is not traded, leased or loaned under any circumstances.”

- “An ***unallocated account*** is an account with a bullion dealer, which may also be a bank, to which a fine weight amount of gold is credited. Transfers to or from an unallocated account are made by crediting or debiting the number of ounces of gold being deposited or withdrawn. Gold held in an unallocated account ***is not segregated*** from the Custodian’s assets. The account holder therefore has no ownership interest in any specific bars of gold that the bullion dealer holds or owns. The account holder is an unsecured creditor of the bullion dealer, and ***credits to an unallocated account are at risk of the bullion dealer’s insolvency***, in which event it may not be possible for a liquidator to identify any gold held in an unallocated account as belonging to the account holder rather than to the bullion dealer. The account holder is entitled to direct the bullion dealer to deliver an amount of physical gold equal to the amount of gold standing to the credit of the account holder.” {emphasis added}

Exchange Traded Funds – Title or Ownership Risks

Title – encumbered = not full ownership

Creation of ETF Units:



Exchange Traded Funds – Title or Ownership Risks

Title – encumbered = not full ownership

❑ All of the gold owned by the GLD Trust is held in the Trust's Allocated Account, except when one ***creates*** or ***redeems*** the baskets, then the gold passes through the Trust's Unallocated Account.

This exposes the investor to **unsecured credit risk** – it is encumbered gold

❑ The prospectus declares the custodian has been "**instructed**" to hold no more than 430 ounces of gold in the Trust's unallocated account overnight, but in systemic failure, it is highly likely the investor is exposed to larger amounts. {emphasis added}

❑ Listed APs are: Bear, Stearns & Co. Inc., BMO Capital Markets Corp., CIBC World Markets Corp., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., EWT, LLC, Goldman, Sachs & Co., Goldman Sachs Execution & Clearing, L.P., HSBC Securities (USA) Inc., J.P. Morgan Securities Inc., Lehman Brothers Inc., Merrill Lynch Professional Clearing Corp., Morgan Stanley & Co. Incorporated, Newedge USA LLC, RBC Capital Markets Corporation, Scotia Capital (USA) Inc., UBS Securities LLC and Wedbush Morgan Securities Inc. have each signed a ***Participant Agreement*** with the Trust and may create and redeem Baskets as described above.

Exchange Traded Funds – Title or Ownership Risks

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Title – encumbered = not full ownership

Gold held in GLD Trust allocated accounts is in theory unencumbered but, as we have explained under the Accounting Risks section, there is a good chance encumbered gold has entered the allocated accounts of ETFs

❑ FAQ SPDR, Question 23: “Is the Trust’s gold ever traded, leased or loaned?”

“Gold held in the Trust’s allocated account in bar form or credited to the Trust’s unallocated account is the property of the Trust and is not traded, leased or loaned under any circumstances.”

❑ Gold is not leased **from** the allocated accounts – we would contend this is most likely an accurate claim by the SPDR. However it is quite likely that **encumbered/leased** gold has found its way **into** the GLD via the unallocated accounts

❑ We know central banks lease gold to bullion banks, many of who are APs. 95% of gold swaps and or loans/leases are held in unallocated accounts [Takeda 2006]

❑ We repeat: specifics of gold loans/leasing and swaps between central banks and financial institutions are opaque

❑ We repeat: IMF Anne Yester defines that “In reserves management, it is common for monetary authorities to have their bullion physically deposited with a bullion bank, which may use the gold for trading purposes in world gold markets….”

Exchange Traded Funds – Title or Ownership Risks

Title – encumbered = not full ownership

❑ Authorized Participants (APs) may act for their own accounts or as agents for broker-dealers, custodians and other securities market participants that wish to create or redeem Baskets.

We have shown that gold from a gold swap could be deemed as title to the APs who have unallocated accounts. Thus APs with unallocated accounts could deliver encumbered gold into an allocated gold account for basket creation of their own. [Kester, para 100 footnote 33]

❑ Vulnerability of ETFs – there could be multiple claims on the gold: eg central bank leased gold (the original lender), the bullion bank (AP) who received swapped gold from another bullion bank who entered into leased gold transaction with a central bank.

❑ Borrowed ETF units – 'create to lend' – could a short seller of GLD or SLV create ownership risk and hence add to multiple claims? Answers on a postcard please.

❑ Leased gold from central banks could accelerate counterparty risk if the collateral posted for the gold was to underperform the value of the leased gold*.

* Gold swaps can be backed by collateral other than cash - note: "Gold deposits [leased gold] are not backed by cash collateral and, in some cases, are not backed by non-cash collateral but "to minimize risks of default, monetary authorities can require adequate collateral (such as securities) from the bullion bank". [Kester, paragraph 99 of the Guidelines]

Exchange Traded Funds – Indemnification Risks

Indemnify – ‘to make whole again’, a party or investor is ‘insured’ ie compensated for loss. The investor is not compensated, and has no recourse unless “gross negligence, fraud or wilful default” [GLD10-K]

No insurance: SPDR Gold Trust Prospectus and 10-K Form:

❑ “The Trust’s gold may be subject to loss, damage theft or restriction on access”

❑ “Trust may not have adequate sources of recovery if its gold is lost, damaged, stolen or destroyed and recovery may be limited, even in the event of fraud, to the market value of the gold at the time fraud is discovered.”

“Shareholders’ recourse against the Trust, the Trustee and the Sponsor, under New York law, the Custodian, under English law, and any subcustodians under the law governing their custody operations is limited.”
“The Trust does not insure its gold.”

❑ Indemnity – “The trust will, solely out of the Trust’s assets, indemnify the Custodian and each of its officers, directors, employees and affiliates on demand against all costs and expenses, damages or losses which the Custodian or any such officer, director, employee or affiliate may suffer or incur in connection with Custody Agreements…”

❑ The custodian will **ONLY** maintain insurance for its business, not applicable to the trust

Exchange Traded Funds – Indemnification Risks

Indemnify – ‘to make whole again’, a party or investor is ‘insured’, ie compensated for loss

SPDR Gold Trust Prospectus and 10-K Form:

- Under the Participant Agreement, the Sponsor has agreed to indemnify the Authorized Participants against certain liabilities….”The trustee has agreed to reimburse the APs, solely from and to the extent of the Trust’s assets, for indemnification and contribution amounts due from the Sponsor… to the extent the sponsor has not paid such amounts when due.” (this applies to Marketing Agent also) [p20 10-K GLD]

- Gold bars allocated to the Trust in connection with the creation of a Basket may not meet the London Good Delivery Standards and, if a Basket is issued against such gold, the Trust may suffer a loss.

“Neither the Trustee nor the Custodian independently confirms the fineness of the gold bars allocated to the Trust in connection with the creation of a Basket. The gold bars allocated to the Trust by the Custodian may be different from the reported fineness or weight required by the LBMA’s standards for gold bars delivered in settlement of a gold trade, or the London Good Delivery Standards, the standards required by the Trust. If the Trustee nevertheless issues a Basket against such gold, and if the Custodian fails to satisfy its obligation to credit the Trust the amount of any deficiency, the Trust may suffer a loss.”

The Trustee is **not** liable for the disposition of gold or monies…

Exchange Traded Funds – Counterparty risk

Counterparty or Intermediation risks – The risk to each party of a contract that the counterparty will not live up to its contractual obligations. Counterparty risk as a risk to both parties and should be considered when evaluating a contract. AKA "default risk".

The Trustee's role and Custodian's Role, Form10-K:

- "In addition, the Trustee has ***no right to visit*** the premises of any subcustodian for the purposes of examining the Trust's gold or any records maintained by the subcustodian, and no subcustodian is obligated to cooperate in any review the Trustee may wish to conduct of the facilities, procedures, records or creditworthiness of such subcustodian." {emphasis added}

- "Gold held in the Trust's unallocated gold account and any Authorized Participant's unallocated gold account ***will not be segregated*** from the Custodian's assets. If the Custodian becomes insolvent, its assets may ***not be*** adequate to satisfy a claim by the Trust or any Authorized Participant. In addition, in the event of the Custodian's insolvency, there may be a delay and costs incurred in identifying the gold bars held in the Trust's allocated gold account." {emphasis added}

- "In the case of the ***insolvency of the Custodian***, a liquidator may seek to ***freeze access to the gold*** held in all of the accounts held by the Custodian, including the Trust Allocated Account. Although the Trust would be able to claim ownership of properly allocated gold bars, the Trust could incur expenses in connection with asserting such claims, and the assertion of such a claim by the liquidator could delay creations and redemptions of Baskets." {emphasis added}

Exchange Traded Funds – Counterparty risk

Counterparty or Intermediation risks

Custody of the Trust's Gold Form 10K:

❑ Allocated gold held with subcustodians – Bank of England, Via Mat and LBMA market-making members that provide bullion vaulting and clearing services to third parties.

❑ "The Custodian ***does not*** have written custody agreements with the subcustodians it selects. The Custodian's selected subcustodians may appoint further subcustodians. These further subcustodians ***are not*** expected to have written custody agreements with the Custodian's subcustodians that selected them. The lack of such written contracts could affect the recourse of the Trust and the Custodian against any subcustodian in the event a subcustodian does not use due care in the safekeeping of the Trust's gold."

❑ "The Trustee ***does not*** undertake to monitor the performance of any subcustodian. Furthermore, the Trustee may have no right to visit the premises of any subcustodian for the purposes of examining the Trust's gold bars or any records maintained by the subcustodian, and ***no subcustodian*** will be obligated to cooperate in any review the Trustee may wish to conduct of the facilities, procedures, records or creditworthiness of such subcustodian."
{emphasis added}

❑ **These disclosures clearly explain there is heightened and multiple counterparty risk**

Exchange Traded Funds – Audit risk

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Audit risk – is the risk of the auditor providing an inappropriate opinion on the financial statements, particularly when those financial statements contain a material mis-statement. Of less concern is the situation where the auditor states that the financial statements do not meet the standard of fair presentation, when in fact they do.

- Gold held by the Custodian's currently selected subcustodians and by subcustodians of subcustodians may be held in vaults located in England or in other locations.

- "In addition, ***the Trustee has no right to visit the premises of any subcustodian for the purposes of examining the Trust's gold*** or any records maintained by the subcustodian, and ***no subcustodian is obligated to cooperate in any review the Trustee*** may wish to conduct of the facilities, procedures, records or creditworthiness of such subcustodian." {emphasis added}

- **Deloitte & Touche – GLD Auditor "Report of Independent Registered Public Accounting"** – "We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements."

We have to *assume* by "reasonable assurance" that Deloitte have verified in their annual audit, posted in the 10-K, that they audited the daily bar lists provided by the Custodian to the Trust.

Exchange Traded Funds – Audit risk

Audit risk

❑ **AP past misbehaviour** – Morgan Stanley: “*Morgan Stanley to settle class- action lawsuit*”

Reuters: http://www.reuters.com/article/idUSN1228014520070612

12 June 2007 Morgan Stanley will pay $4.4 million to settle a class-action lawsuit with brokerage clients who bought precious metals and paid storage fees, according to a court filing.

The proposed settlement, which must be approved by the federal court in Manhattan, includes a cash component of $1.5 million and economic and remedial benefits valued at about $2.9 million, according to a court filing on Monday.

The suit, filed in August 2005, alleged that Morgan Stanley told clients it was selling them precious metals that they would own in full and that the company would store.

But Morgan Stanley either made no investment specifically on behalf of those clients, or it made entirely different investments of lesser value and security, according to the complaint.

"While we deny the allegations, we settled the case to avoid the cost and distraction of continued litigation," Morgan Stanley said in a statement.

According to the filing, Morgan Stanley argued there were no violations of law and no default or failure to perform or deliver precious metals.

The suit was filed by Selwyn Silberblatt, on behalf of himself and others who bought precious metals -- gold, silver, platinum and palladium in bullion bar or coins -- from Morgan Stanley DW Inc. and its predecessors and paid fees for their storage, according to the filing. The suit covered investors who did so between Feb. 19, 1986, and Jan. 10, 2007.

Silberblatt, a resident of Maine when the suit was filed, bought silver bars from Morgan Stanley during that period.

So do we trust the AP or the auditor? Anyone remember Arthur Anderson Consulting….?

Exchange Traded Funds – Liquidation Risk

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Liquidation risk – The Trust can (or be required to) terminate or liquidate given certain conditions. However, the 10-K does not make clear if termination is limited to only these conditions, and if the Trust is unwound, for whatever reason, no specifics are given as to how the gold will be sold.

❑ From the GLD's 10-K: "If the Trust is required to terminate and liquidate, such termination and liquidation could occur at a time which is disadvantageous to Shareholders . . . . In such a case, ***when the Trust's gold is sold*** . . . the resulting proceeds distributed to Shareholders will be less than if gold prices were higher at the time of sale." {emphasis added}

❑ The GLD is a very large holder of gold – in fact it is, the 6th largest holder of gold in the world, after the US, Germany, the IMF, Italy and France

❑ Liquidation would have an enormous effect on prices. Investors would take sizable hits on their gold investments. Moreover, as the above paragraph from the 10-K makes clear, the Trust has no obligation to get a good price on the gold it liquidates.

Exchange Traded Funds – Redemption Risk

Liquidation/Withdrawal risk – how easy or difficult it is for an investor to get their "money out" or withdraw "physical bullion"

- From the GLD's 10-K: "Redemption orders are subject to postponement, suspension or rejection by the Trustee under certain circumstances".

One of the reasons given for some form of delay to redeem GLD shares is given as:

- " . . . for any period during which an emergency exists as a result of which the delivery, disposal or evaluation of gold is ***not reasonably practicable***" {emphasis added}

- Who knows when the "delivery, disposal or evaluation" of gold may not be "reasonably practicable"?

- **Perhaps during a period of systemic risk – precisely the time when one wants peace of mind that they have full ownership rights to their gold.**

Exchange Traded Funds – Redemption Risk

Liquidation/Withdrawal risk – how easy or difficult it is for an investor to get their "money out" or withdraw "physical bullion"

- The GLD does provide for direct withdrawals of Gold Directly from the Trust Allocated Account. The minimum withdrawal is a basket of 100,000 shares so not designed for retail to redeem (see pp 27 Form 10-K)

- "The Custodian is not obliged to effect any requested delivery if, in its reasonable opinion, (1) this would cause the Custodian or its agents to be in breach of the Custody Rules or other applicable law, court order or regulation, (2) the costs incurred would be excessive or (3) ***delivery is impracticable for any reason***. When gold is physically withdrawn from the Trust Allocated Account pursuant to the Trustee's instruction, all right, title, risk and interest in and to the gold withdrawn shall pass to the person to whom or to or for whose account such gold is transferred, delivered or collected at the time the recipient or its agent acknowledges in writing its receipt of gold. ***Unless the Trustee specifies the bars of gold to be debited from the Trust Allocated Account, the Custodian is entitled to select the gold bars."***
{emphasis added}

- The main risk of redemption is that the proceeds are based on a value less than the true value of the physical gold that the ETF attempts to track, which would occur if their was any encumbered gold that was re-called by the legal owner – usually a central bank

Exchange Traded Funds – Redemption Risk

Tracking Risk – the ability of the Trust to maintain the value of the underlying gold bullion (or silver bullion) price

- Estimated costs are 0.40% per annum (which increases if assets fall below $388mm)

- "The sale of gold by the Trust to pay expenses will reduce the amount of gold represented by each Share on an ongoing basis irrespective of whether the trading price of the Shares rises or falls in response to changes in the price of gold."

- "The Shares may trade at a price which is at, above or below the NAV per Share and any discount or premium in the trading price relative to the NAV per Share may widen as a result of non-concurrent trading hours between the COMEX division of the New York Mercantile Exchange, or the COMEX, and the NYSE Arca."

- Tracking error has been on average between 1% to 2% for the ETF largely at discount

- The ETF would trade at a greater discount if taxation rates were raised, one form of indirect "confiscation"

Exchange Traded Funds – Disclosure Issues?

GLD and SLV are the largest precious metals ETFs. They appear to have given extensive disclosure but **not full** disclosure to potential investors.

Custodians of ETF products have potential conflicts of interest. In the following slides we look at custodians involvement in:

- ❑ Potential manipulation of the precious metals markets

- ❑ Market irregularities in precious metals markets

We also look at:

- ❑ ETF market maker role in commodities market pricing and trading

Source: http://solari.com/assets/docs/archive/Disclosure_in_the_Precious_Metals_Puzzle_Palace.pdf

Exchange Traded Funds – Disclosure Issues?

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Custodian Conflict of Interest

"The sponsor believes that the size and operation of the gold bullion market make it unlikely that an Authorized Participant's direct activities in the gold or securities market will impact the price of gold or the price of the Shares." [p30 Form-10K]

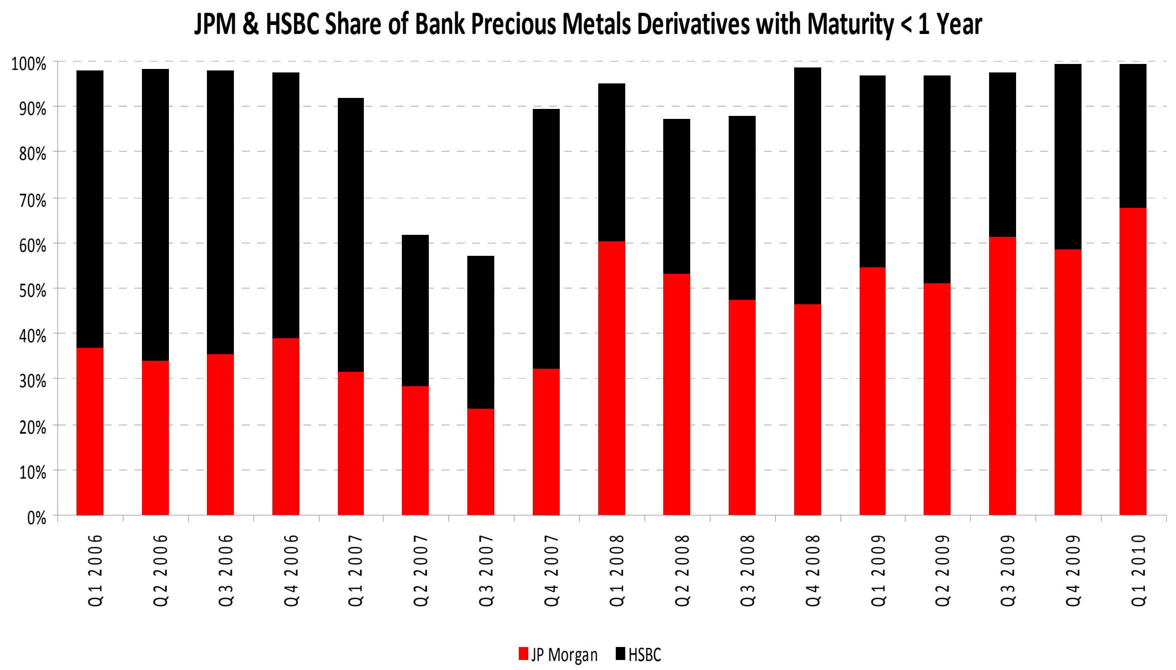
We beg to differ…

- ❑ HSBC & JPM respectively custodians of GLD and SLV hold on behalf of security holders approximately half annual mine supply of gold, and over 40% annual mine supply of silver
- ❑ Two custodians also hold significant positions in OTC derivatives
- ❑ Two custodians also biggest shorts on Comex gold and silver
- ❑OCC[1] Bank Derivatives Reports and CFTC[2] Bank Participation Reports illustrate JPM and HSBC own over 90% of OTC precious metals derivatives and are net short over 30% or more of the Commercials net short at anyone time
- ❑ JPMorgan is the majority holder in both instances

[1] OCC (Office of the Comptroller of the Currency)
[2] CFTC (Commodity Futures Trading Commission)

Exchange Traded Funds – OTC Shorts?

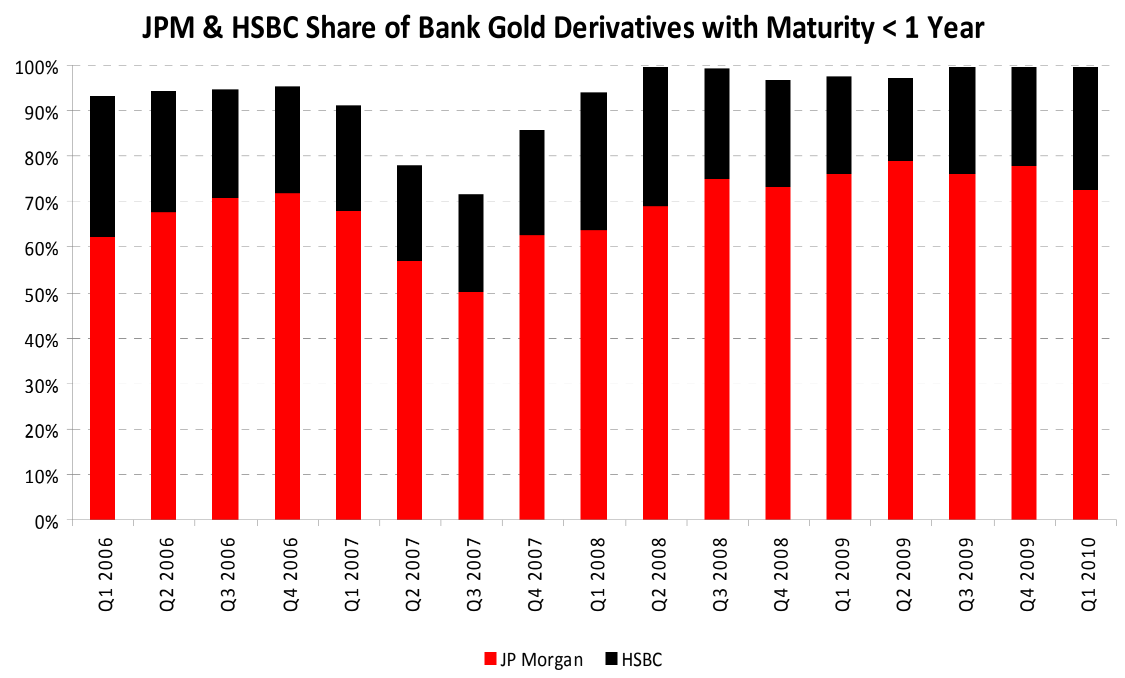
HSBC and JPMorgan % Silver Derivatives (inferred) (average maturity less than 1 yr)



- HSBC & JPMorgan dominate Silver OTC market 85% to almost 100% at any one time
- Average notional value is $15.8bn (2008), almost twice silver production mined that year

Exchange Traded Funds – OTC Shorts?

HSBC and JPMorgan % Gold Derivatives (average maturity less than 1 yr)



- ❑ HSBC & JPMorgan dominate Gold OTC market 85% to almost 100% at any one time
- ❑ Average notional value is $85bn (2008). This is approx 120% of mine supply value for the same year

Exchange Traded Funds – Disclosure Issues?

Market Manipulation

- March 25th 2010 CFTC hearing into alleged manipulation in the precious metals space
  http://www.gata.org/node/8467

- Custodians and ETF Authorized Participants hold record shorts on Comex

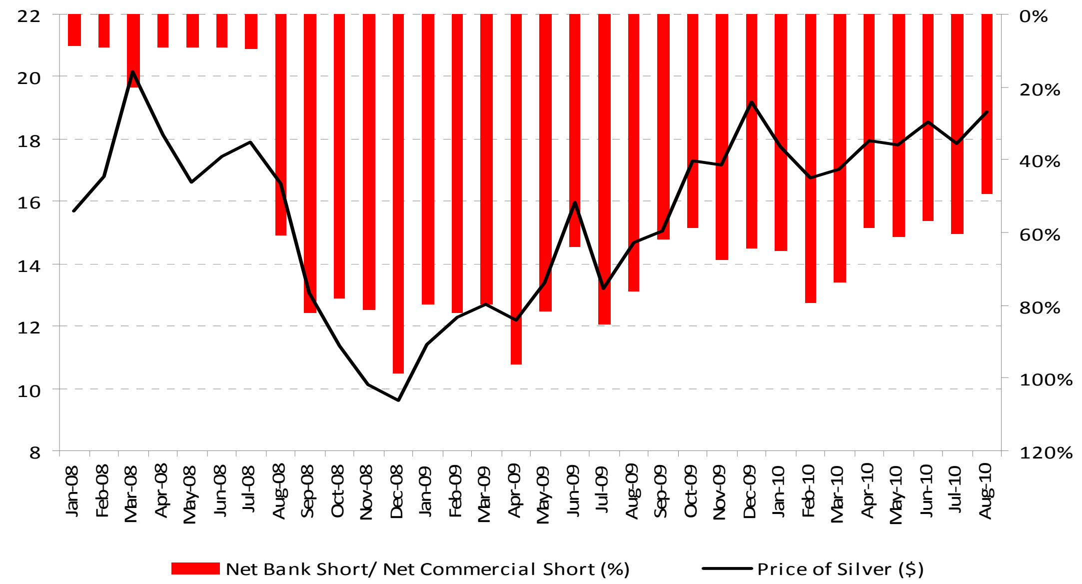
- Impact from hearings on market positions of these entities not disclosed

- Significance of investigation – proven manipulation or not, activities will be curtailed to a degree

- Significance of investigation – custodians and other banks part of Federal Reserve System, with relationship with FRBNY[4] – which serves as depository for US government, plus agent for ESF[5]

Exchange Traded Funds – Comex Shorts

Two Banks Net Short as % of Commercial Net Short and Silver Price
(observe July 2008 "Commodity Massacre" short activity)



- ❑ 2008 July to November – Silver net US bank shorts rose from 9% to 99% of Comex market in one hit (30mm tr.oz sold – approx 27,000 contracts)

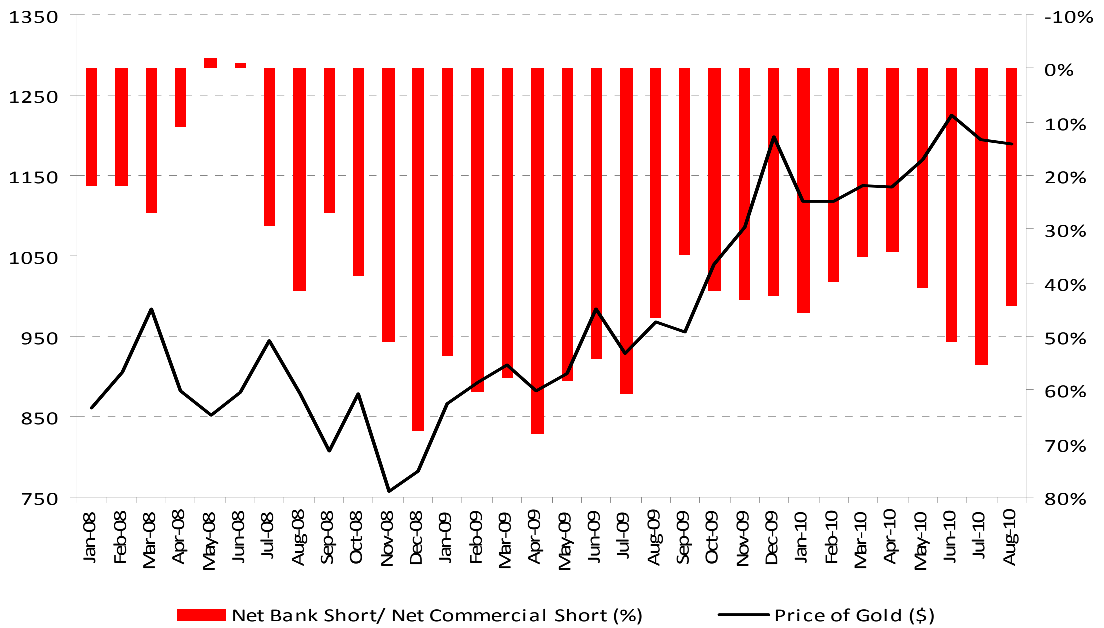
- ❑ Concentration risk of almost 100% between 2 Commercial Banks = Manipulation

- ❑ With 2 banks short >25% of annual mine supply, silver collapses from $19 to $9. Quelle surprise!

- ❑ Note 2 Commercial Banks hold 140% of annual mine supply in OTC positions

Exchange Traded Funds – Comex Shorts

Three Banks Net Short Gold as % of Commercial Net Short and Gold Price
(observe July 2008 "Commodity Massacre" short activity)



- ❑ 2008 July to November – Gold net 3 largest bank shorts rose from 0% to 67% of Comex market!

- ❑ Gold collapses from $980 to $700 with 3 banks short 10% annual mine supply!

Exchange Traded Funds – Disclosure Issues?

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Bullion Leasing

- According to documents from several ETFs we have looked at they do not disallow Authorized Participants to contribute gold and silver leased from central banks into the ETFs (as opposed to metals held as absolute legal title)

- Storage of gold can be in various jurisdictions - does this increase confiscation risk?

Market Irregularities

- Questionable that there is sufficient available supply of precious metals to satisfy all the claimed ownership positions as OTC market acts on fractional reserve basis

- London Bullion Market Association (LBMA) annual transfers on OTC suggest that LBMA do not have the physical to match off all claims [http://www.gata.org/node/8478]

Exchange Traded Funds – Disclosure Issues?

ETF market maker role in commodities market pricing and trading

- Authorized participants and custodians of ETFs act as market makers in light of their concentration as major players in precious metals market

- GATA (Gold Anti-Trust Action Committee) members have sought to prove, by exposing market manipulation, that creation of such products allows continued control of the precious metals sector. There is growing acknowledgement of this.

- GLD and SLV attract investor savings from different fund types – public and private pension plans, retail investment funds etc – is it for an undisclosed purpose to serve interests of bullion banks and co-existing relationships?

Exchange Traded Funds – Caveat Emptor

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"If you are at the poker table and you can't spot the sucker, it's probably you"

Precious Metal ETFs offer the allure of the Alchemist's 'elixir of longevity'; the reality is very different:

- ❑ **Ownership** - It's probably not a question of do the ETFs have the bullion, it is a question of 'ownership' - we have shown that GLD gold could have multiple claims

- ❑ **Accounting risks** pose the very high risk that 'encumbered' bullion has been leased into the GLD, creating the possibility of multiple claims on the bullion

- ❑ **Counterparty risk** exists on multiple layers and is accentuated by the 'double counting' issue loaned or leased gold

- ❑ The leasing of gold has led to the growth of a fractional reserve styled OTC bullion market from which the ETFs access bullion. This leads to greater counterparty and leverage risk on a systemic basis.

- ❑ These ETF risks threaten to 'expropriate' investors savings. **Should there be a 'run' on OTC gold then ETF bullion will be at risk**. ETFs will **cease** to properly tracking the bullion price and the investor will lose out relative to owning the real asset.

- ❑ Recognition of the risks could lead to **whole scale demand for *real* physical bullion** and collapse of ETFs

Exchange Traded Funds – Caveat Emptor

HINDE CAPITAL

"If you are at the poker table and you can't spot the sucker, it's probably you"

❑ Apathy is the single biggest risk to investors. It is all too easy to click on a mouse and, hey presto!, you own some 'gold'.

❑ We understand that certain institutional investors are not permitted by regulatory authorities to own physical commodities, but this is changing and most pension funds can now invest in physical bullion.

❑ We as holders of allocated bullion stored in Zurich vaults pay less in a year in costs than the annual expenses on an ETF.

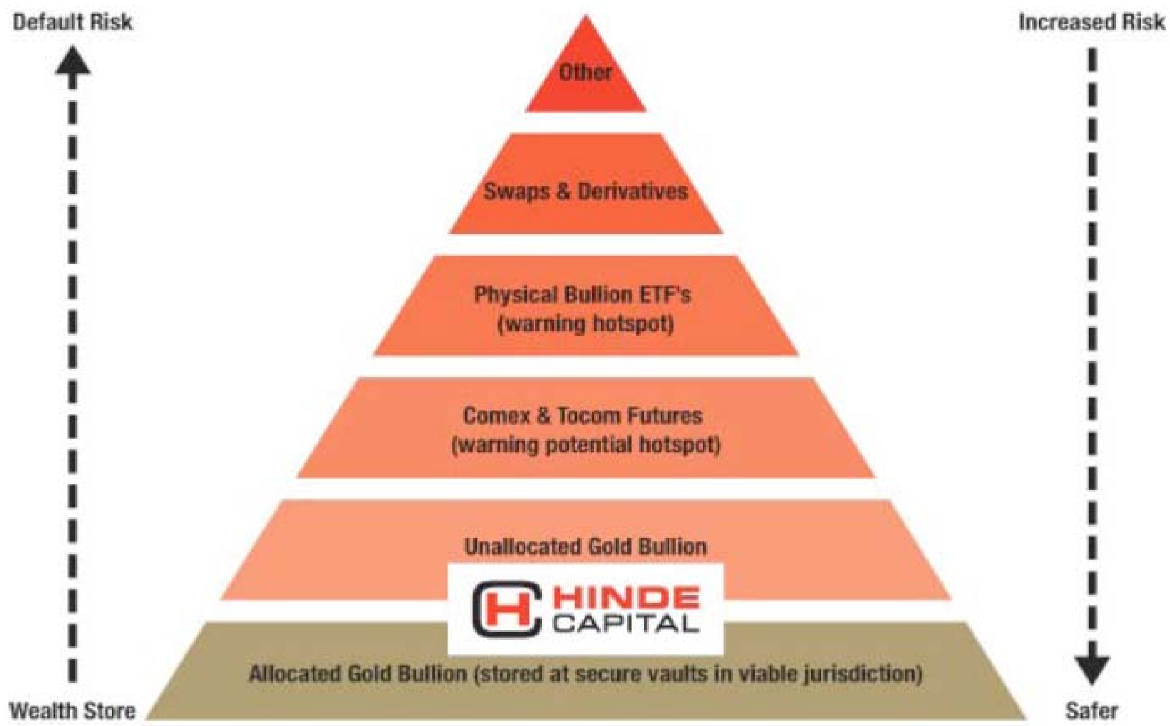
❑ We leave you with the thought that every time you purchase a paper gold derivative you are aiding the suppression of the gold price. Why? The proliferation of paper gold products creates the illusion of more supply than there is physical bullion, at the prevailing price.

❑ If we were a major ETF holder we would demand delivery of our physical bullion before all other investors demanded theirs from either ETFs or the OTC market.

Last man at the bank LOSES.

Hinde Capital: A Highly Secure Investment

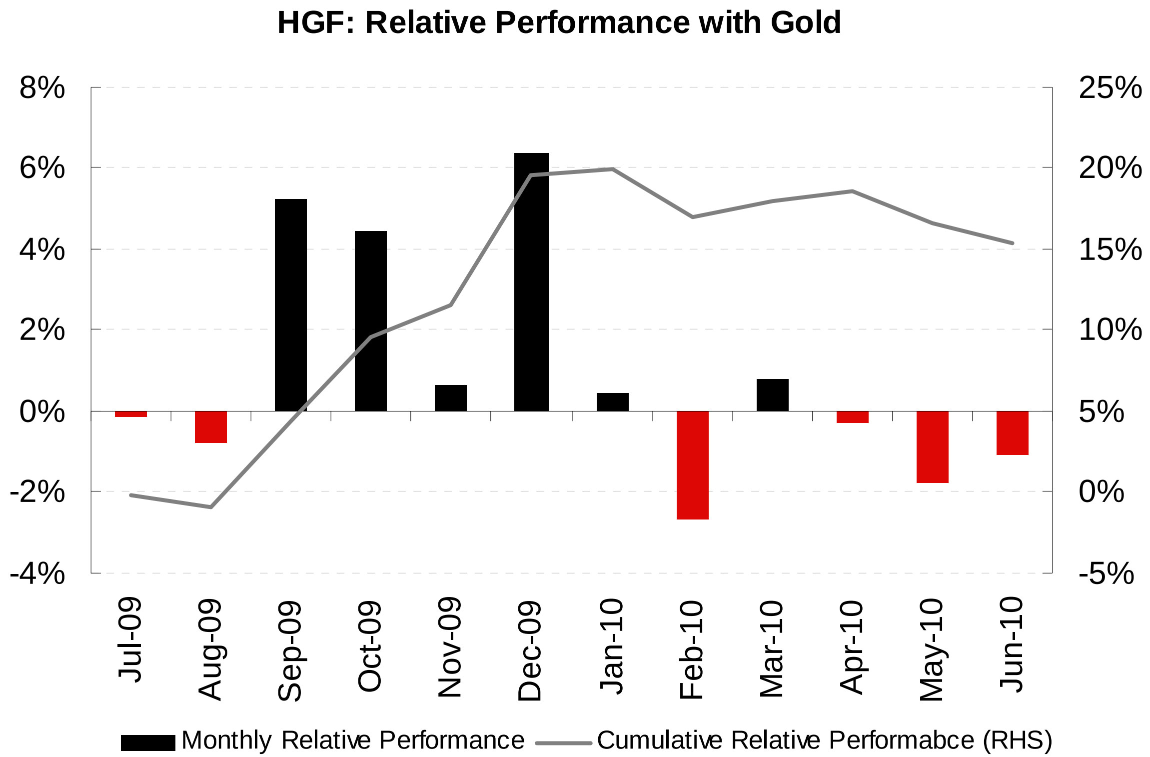
ETFs and other vehicles for gold investment have inherent risks investors may be unaware of. An investment in gold should hedge out all possible credit risks. Hinde Gold Fund achieves this by investing in *allocated* gold bullion.



Hinde Gold Fund

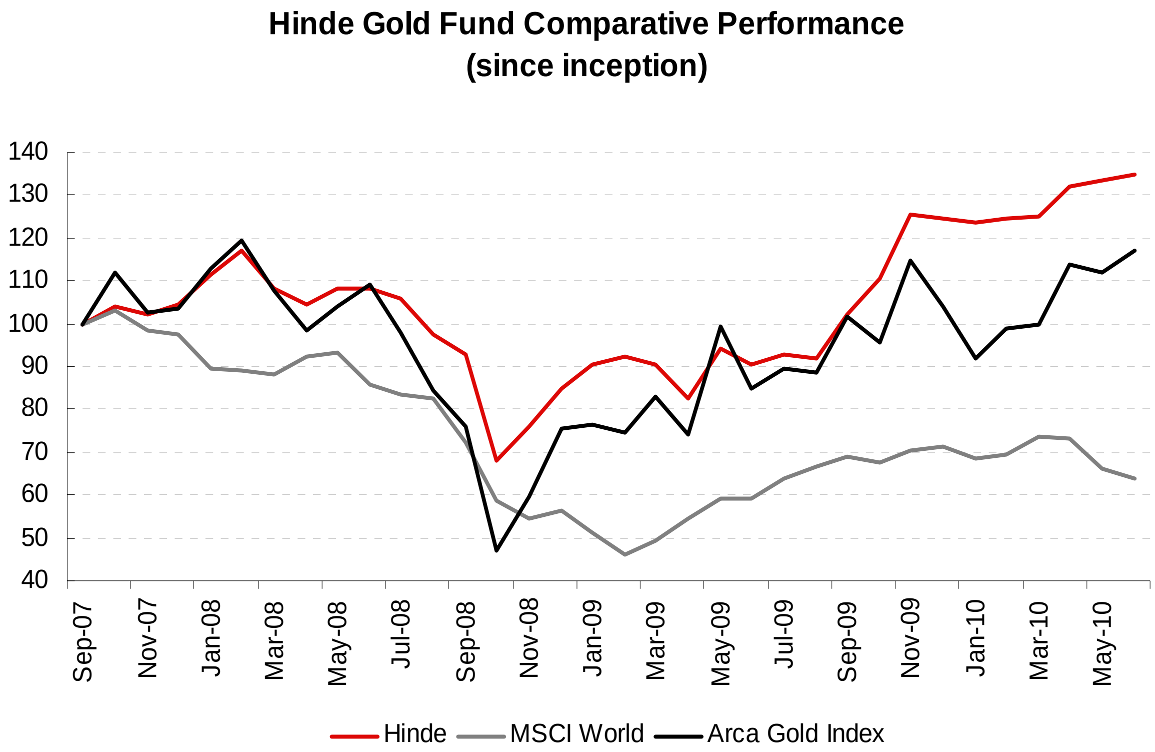
HINDE CAPITAL

Hinde Gold Fund is a managed gold investment. It aims to outperform the gold price, while smoothing any downside volatility.



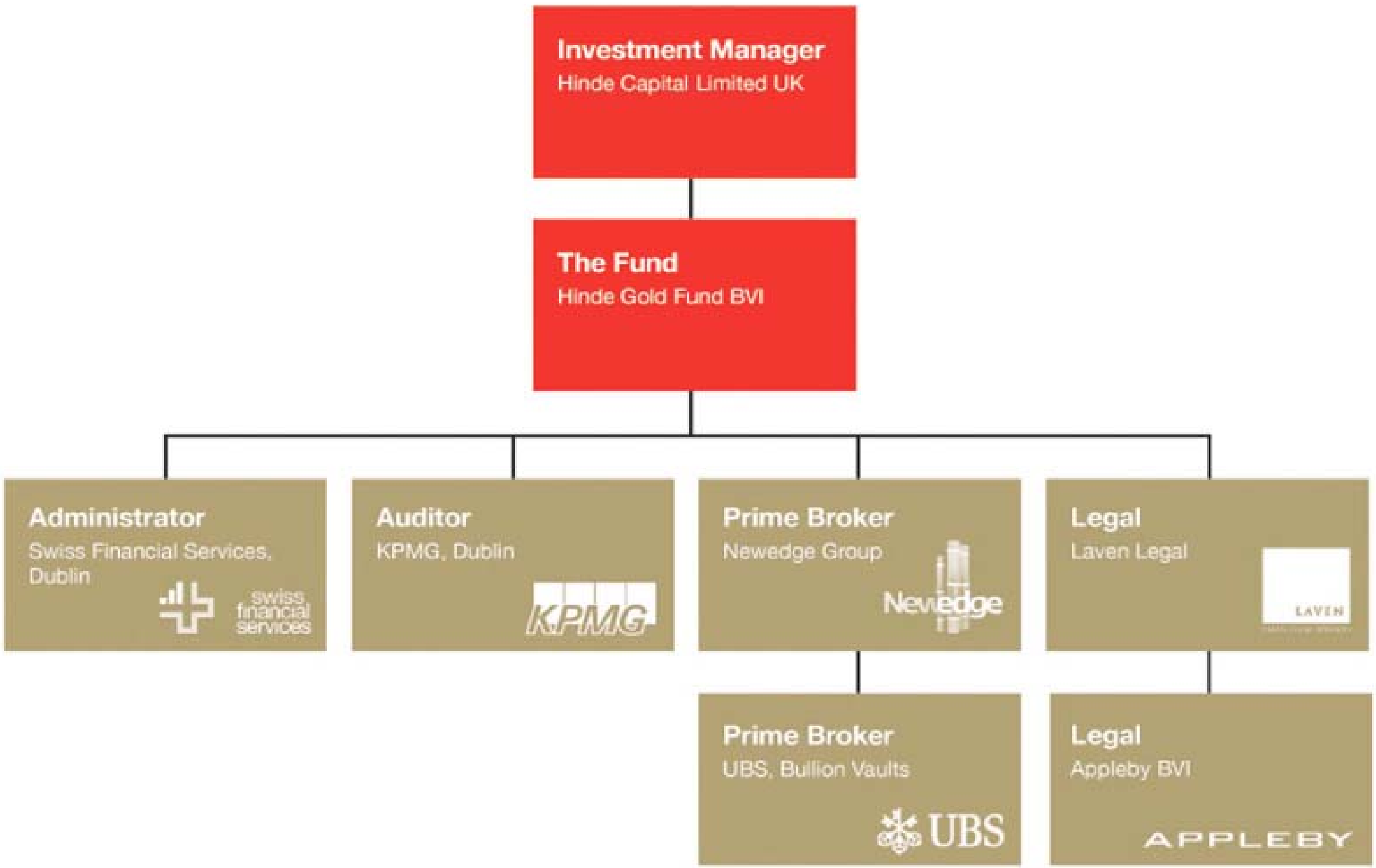
Hinde Gold Fund

Hinde Gold Fund has performed well against other assets since its inception.



Hinde Capital: Structure

Hinde Capital's structure ensures the firm's operations are thoroughly audited and transparent.



Hinde Capital: Investment Managers

Ben Davies ran trading for RBS Greenwich Capital in London where he managed a macro portfolio. He started his career in 1995 trading in the Credit fixed income market at Credit Lyonnais, moving to IBJI as a fixed income specialist and finally Greenwich Capital in 1999. He graduated with a BSc from Loughborough University where he majored in accounting and economics. Ben Davies and Mark Mahaffey, former colleagues from RBS Greenwich Capital, established Hinde Capital in early 2007, primarily to focus on the precious metals and commodity sector.

Mark Mahaffey has 24 years experience in the international markets having held senior posts at several leading investment banks. He trained as a fixed income specialist at Daiwa Securities before joining Midland Montagu as Director of the US government trading desk. In 1990 he jointly set up the Greenwich Capital office in London where he managed a portfolio focusing on global macro themes, before joining IBJI in 2001. His most recent appointment from 2005 was Managing Director of Bank of America London Proprietary desk.

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Request a Brochure

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Appendix

[1]Authorized Participant must (1) be a registered broker-dealer or other securities market participant such as a bank or other financial institution which is not required to register as a broker-dealer to engage in securities transactions, (2) be a participant in DTC or DTC Participant, (3) have entered into an agreement with the Trustee and the Sponsor, or the Participant Agreement, and (4) have established an unallocated gold account with the Custodian, or the Authorized Participant Unallocated Account. The Participant Agreement provides the procedures for the creation and redemption of Baskets and for the delivery of gold and any cash required for such creations or redemptions. A list of the current Authorized Participants can be obtained from the Trustee or the Sponsor

[2] The Custodian is responsible for the safekeeping of the Trust's gold bars transferred to it in connection with the creation of Baskets by Authorized Participants. The Custodian also facilitates the transfer of gold in and out of the Trust through gold accounts it maintains for Authorized Participants and the Trust. The Custodian is a market maker, clearer and approved weighed under the rules of the London Bullion Market Association, or LBMA.

[3] The Trustee is generally responsible for the day-to-day administration of the Trust. This includes (1) selling the Trust's gold as needed to pay the Trust's expenses (gold sales are expected to occur approximately monthly in the ordinary course), (2) calculating the NAV of the Trust and the NAV per Share, (3) receiving and processing orders from Authorized Participants to create and redeem Baskets and coordinating the processing of such orders with the Custodian and The Depository Trust Company, or the DTC and (4) monitoring the Custodian.

[4] FRBNY – Federal Reserve Bank of New York

[5] ESF – Exchange Stabilisation Fund - http://en.wikipedia.org/wiki/Exchange_Stabilization_Fund

To investigate further the issues in the Precious Metals ETFs please refer to other sources:

http://www.spdrgoldshares.com/sites/us/prospectus/

http://us.ishares.com/product_info/fund/overview/SLV.htm

http://solari.com/assets/docs/archive/Disclosure_in_the_Precious_Metals_Puzzle_Palace.pdf

Appendix

Key References

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Anne Y Kester Oct 2001
http://dsbb.imf.org/vgn/images/pdfs/opguide.pdf pp18 -19

BIS 80th Annual Report 1 April 2009 -31 March 2010
http://www.bis.org/publ/arpdf/ar2010e.pdf?noframes=1

Issues Paper (RESTEG) # 11 Treatment of Gold Swaps and Gold Deposits (loans)
Hidetoshi Takeda IMF Stats Dept April 2006
http://www.imf.org/external/np/sta/bop/pdf/resteg11.pdf

Follow-up Paper Resteg # 11.1Treatment of Allocated/Unallocated gold held as reserve assets and gold swaps and gold deposits *Hidetoshi Takeda IMF Stats Dept Aug 2006*
http://www.imf.org/external/np/sta/bop/pdf/fu111.pdf

http://www.spdrgoldshares.com/media/GLD/file/SPDR_GLD_FAQs.pdf

http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_fsi_IM_ExchangeTradedFunds_061009%281%29.pdf

Annual Report Form 10-K http://www.sec.gov/Archives/edgar/data/1222333/000095012309066100/y02316e10vk.htm

Trust Indenture http://www.sec.gov/Archives/edgar/data/1222333/000095013603002911/file002.htm

Form S-3 Registration Statement
http://www.sec.gov/Archives/edgar/data/1222333/000095012309004971/y01161sv3asr.htm

Appendix

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Key References contd.

Allocated Bullion Account Agreement
http://www.sec.gov/Archives/edgar/data/1222333/000095013604003776/file003.htm

Unallocated Bullion Account Agreement
http://www.sec.gov/Archives/edgar/data/1222333/000095013604003776/file007.htm

Annual Report Form 10-K
http://www.sec.gov/Archives/edgar/data/1222333/000095012309066100/y02316e10vk.htm

Trust Indenture
http://www.sec.gov/Archives/edgar/data/1222333/000095013603002911/file002.htm

Form S-3 Registration Statement
http://www.sec.gov/Archives/edgar/data/1222333/000095012309004971/y01161sv3asr.htm

Allocated Bullion Account Agreement
http://www.sec.gov/Archives/edgar/data/1222333/000095013604003776/file003.htm

GATA Dispatches – Adrian Douglas
It's admitted to the CFTC: London gold market is a Ponzi scheme
http://www.gata.org/node/8478

The 'tiny' gold market is actually the world's biggest
http://www.gata.org/node/8247

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