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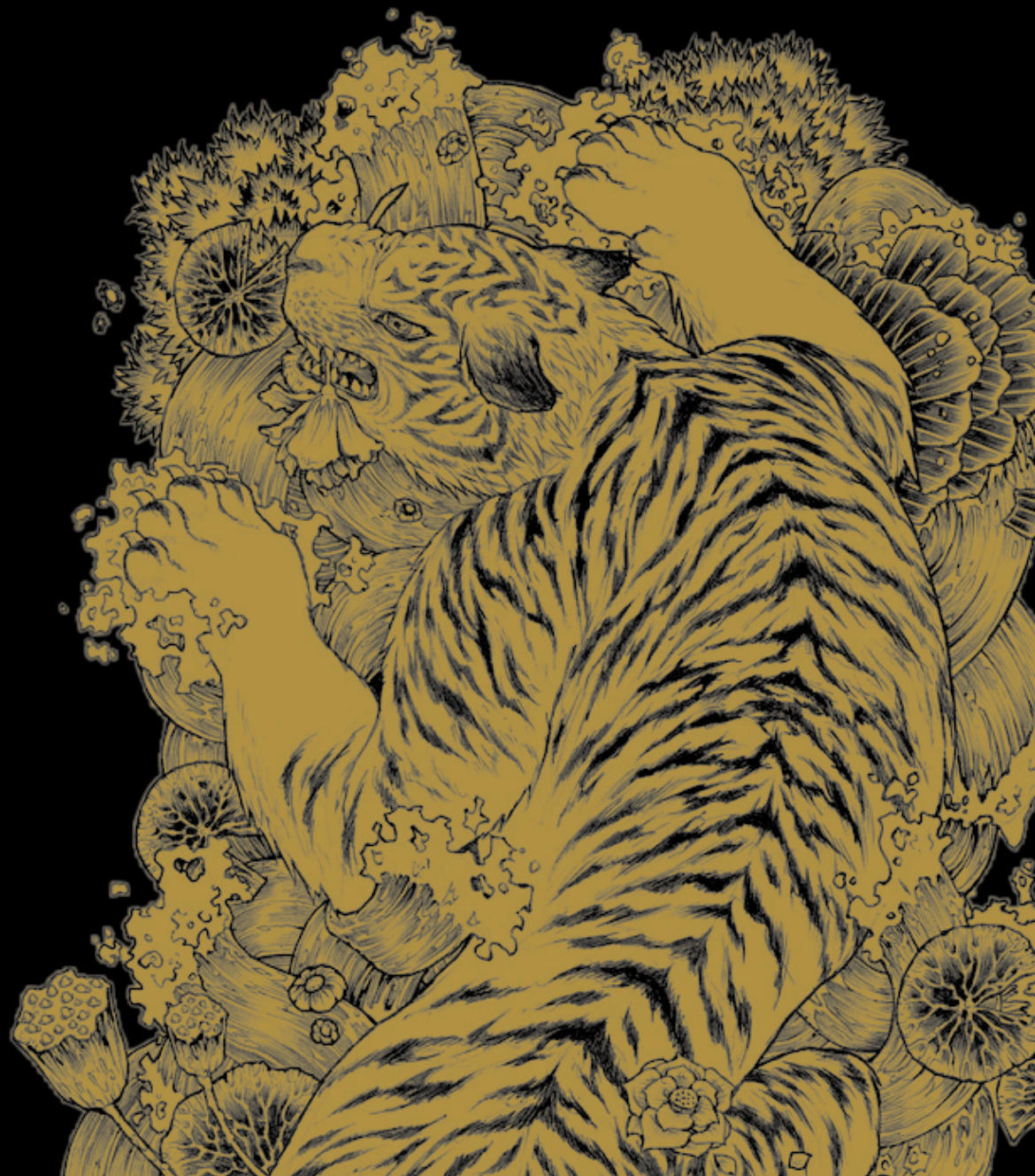
HINDE GOLD FUND

A Golden Renaissance
Precious Metal Dynamics

June 2011



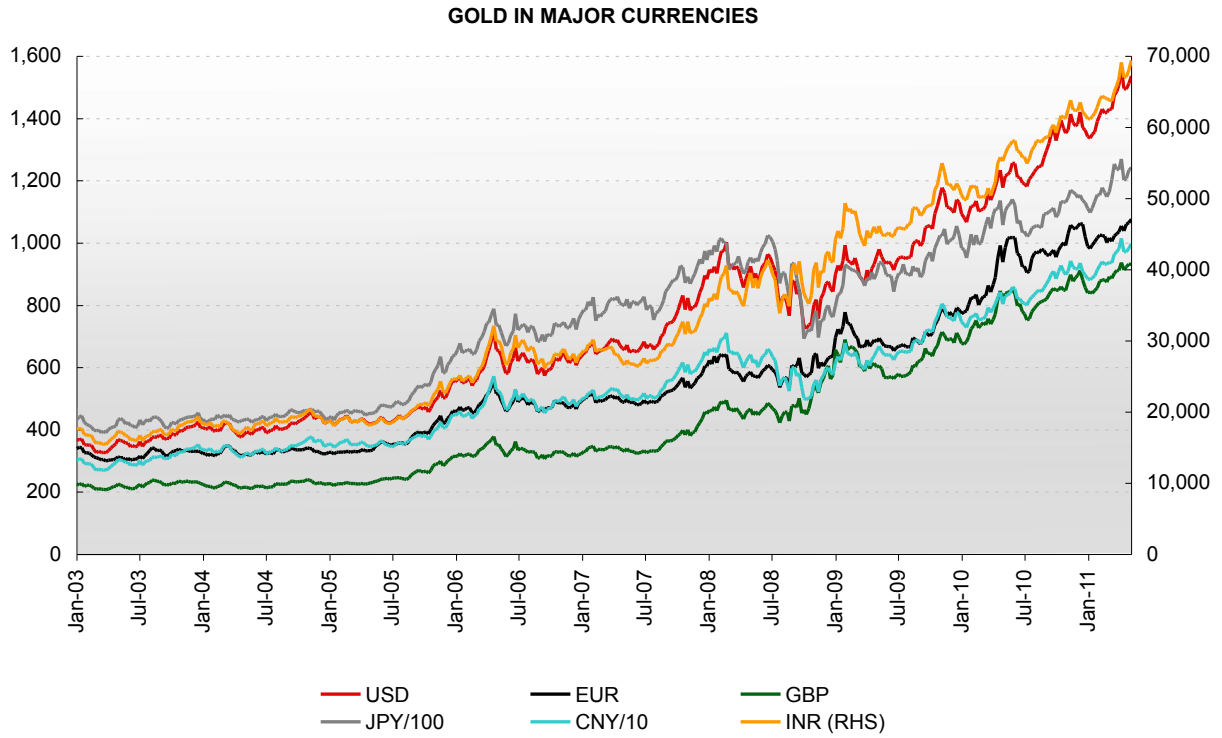
HINDE GOLD FUND

mines and money Beijing 2011

A GOLDEN RENAISSANCE

Gold has risen 19% annualised since 2001 to present in a basket of currencies. This is a statement not just about the US dollar reserve currency status this is a statement about the collateral worth of all fiat or paper currencies.

Gold is experiencing global demand on a scale unprecedented in history. It is quite simply experiencing a re-birth, based on a universal change of attitude.



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A GOLDEN RENAISSANCE

What prospective investors should take away from this presentation:

- Gold attitudes have changed globally, East and West
- Gold investment demand is the swing factor in supply demand 'equilibrium'
- Gold is *less* **(mis)understood, but** *still* **undervalued and underowned**
- Golden Demographics will drive future trend of gold investment
- Portfolios should always have a weighting in real assets. In the current environment this must be much higher
- Gold is the best real asset for your portfolio – gold is the *currency* of real assets
- Hinde Gold Fund is the best vehicle for your gold (and silver) allocation in your portfolio

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GOLD ATTITUDE

Gold is experiencing global demand on scale unprecedented in history. It is quite simply experiencing a re-birth, based on a universal **change of attitude**.



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GOLD ATTITUDE: EAST AND WEST

East
Cultural Affinity: ‘Love it’



West:
‘Love it or Hate it’



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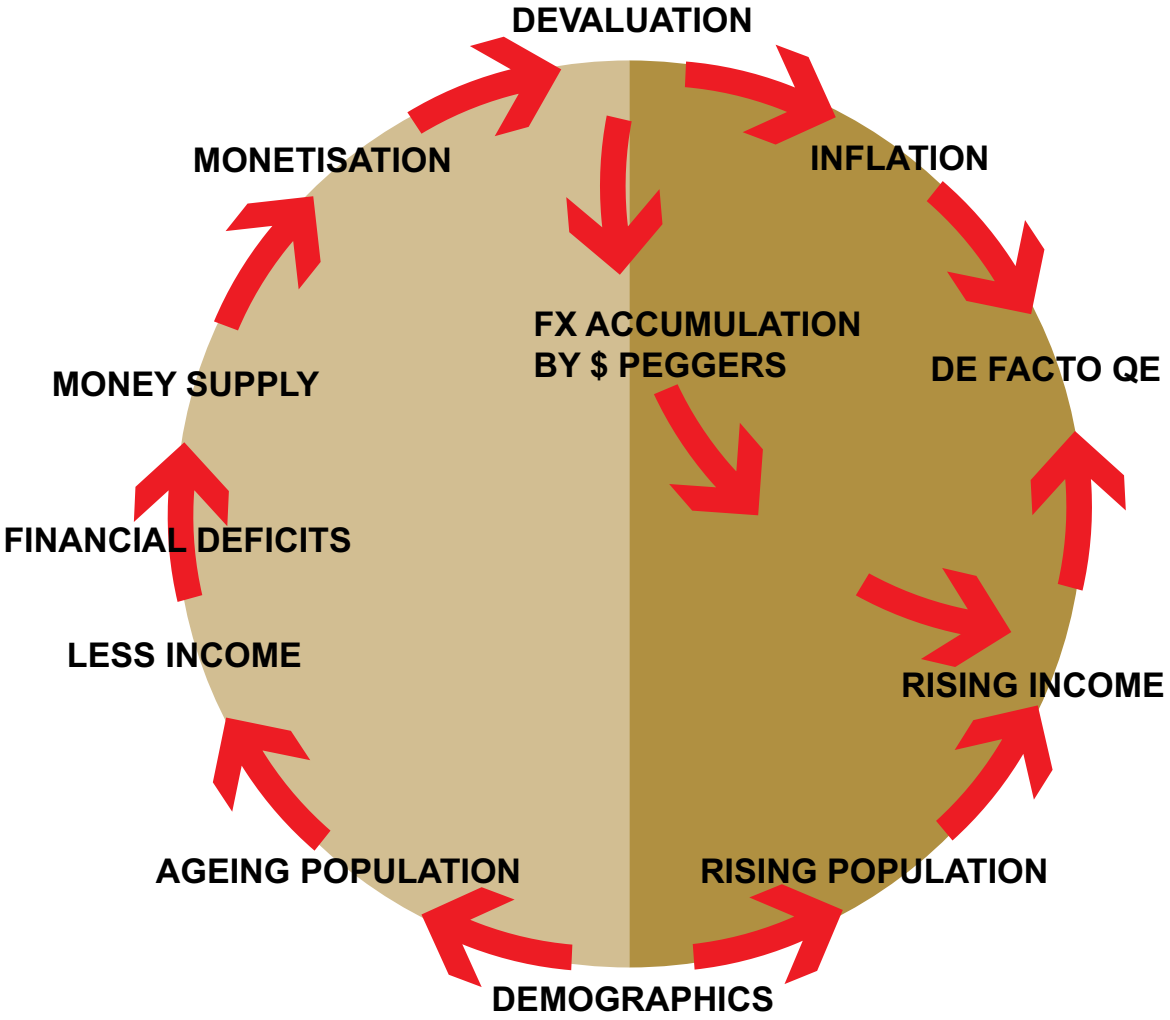
GOLD ATTITUDE:
DISTRUST OF PAPER MONEY

West G7

AUROPHOBIA
'FEAR OF GOLD'

NOW G7
RESPECT GOLD

DEBTOR NATIONS



East E7

CULTURAL AFIFINITY
FOR GOLD

NOW E7
LOVE INVESTMENT
GOLD

CREDITOR NATIONS

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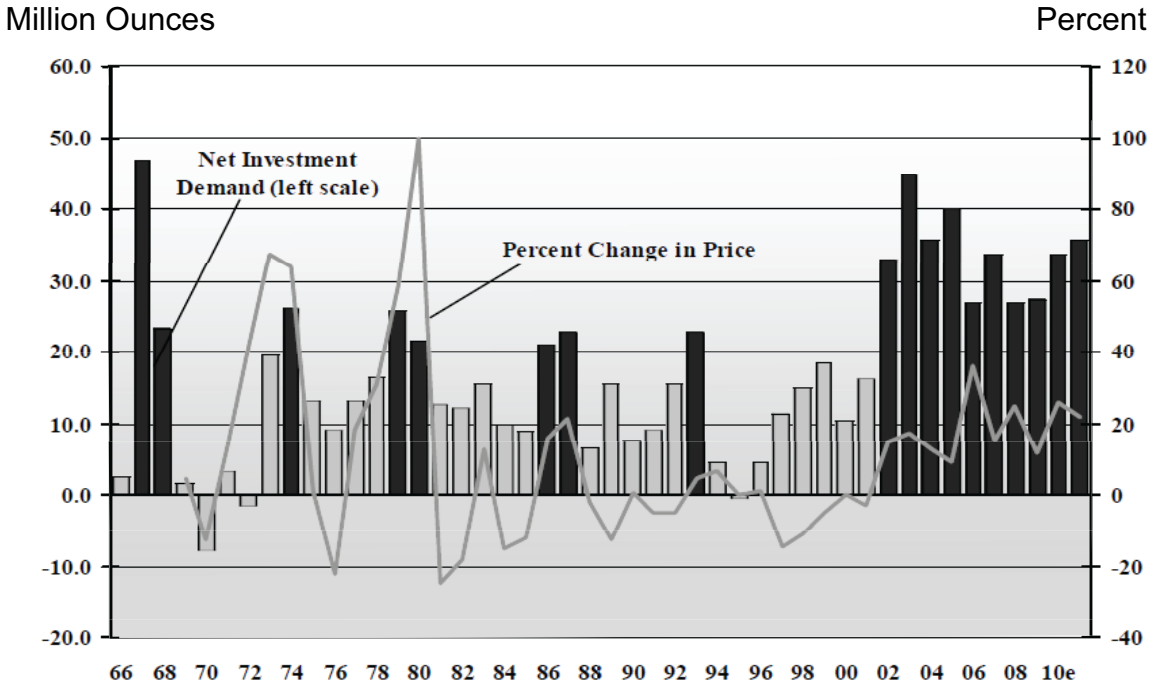
PRIVATE SECTOR BUYS INVESTMENT GOLD

This decade it's all been about investment demand. In 2001 investors purchased 16.3 million ounces of gold; by 2010 this was 34 million ounces. There has been a perception shift. Households in emerging countries tend to buy less jewellery and more investment products – bars, coins etc.



Source: CPM group, The CPM Gold Yearbook 2011

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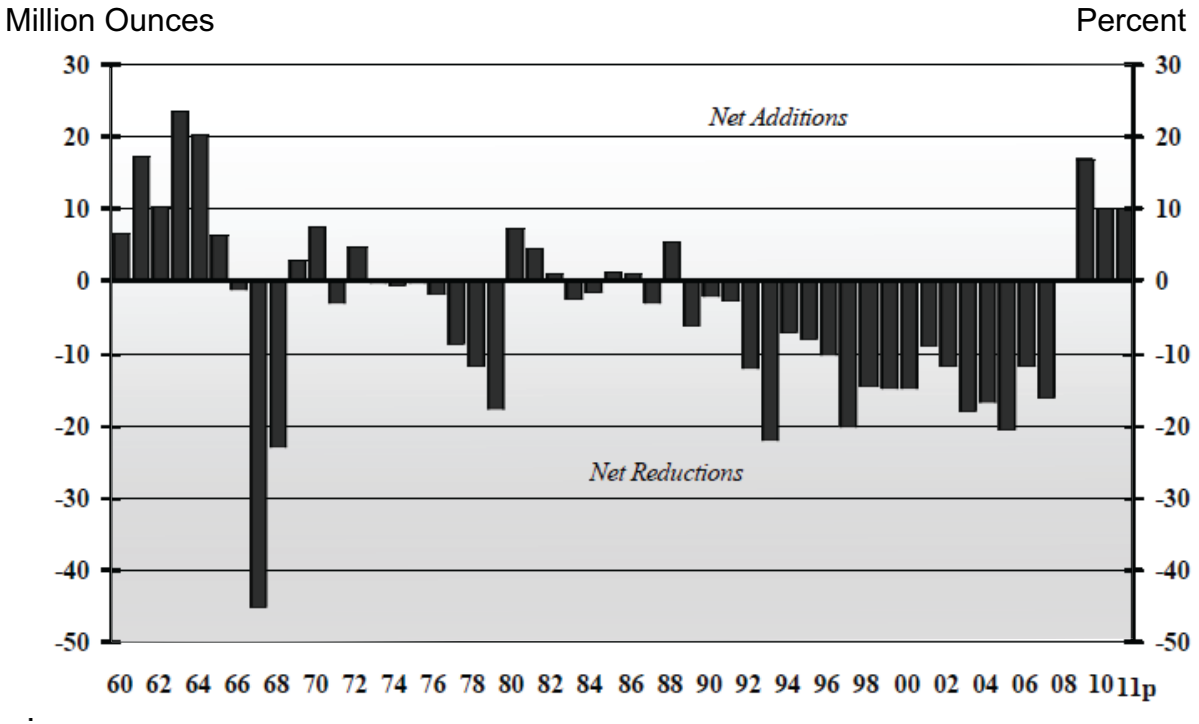
CENTRAL BANKS 'LOVE' GOLD

China, India, Russia and Saudi Arabia have been some of largest official sector buyers. For first time in 50 years they are powerful net buyers.



Source: IMF and CPM group

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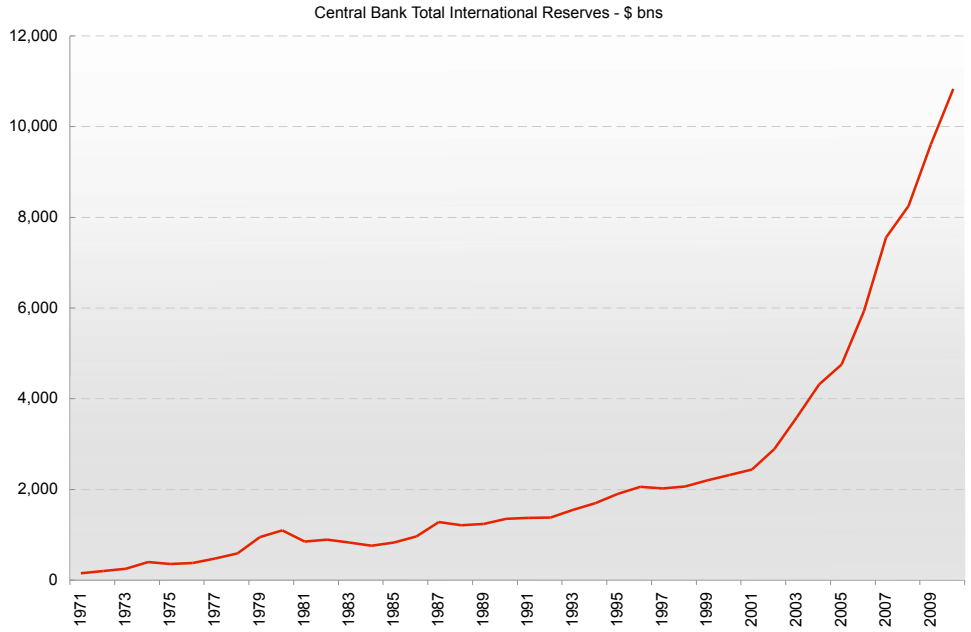
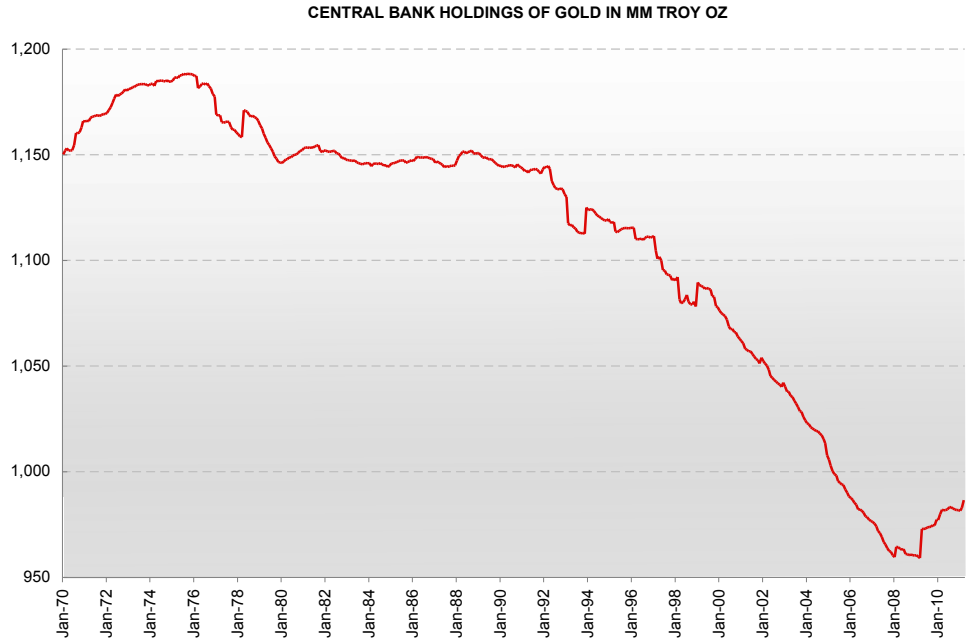
PAPER CURRENCY DWARFS GOLD ACCUMULATION

Central banks are net buyers. But as fast as they might buy, their paper currency reserves keep growing faster. Estimates are for $11 trillion in reserves in next few years.

Russia bought some 320 tonnes of gold from 2000 to end 2010. In 2000 the ratio of Russian gold holdings to their currency was 24.6%; now it is 3%.



Source: IMF



Source: IMF

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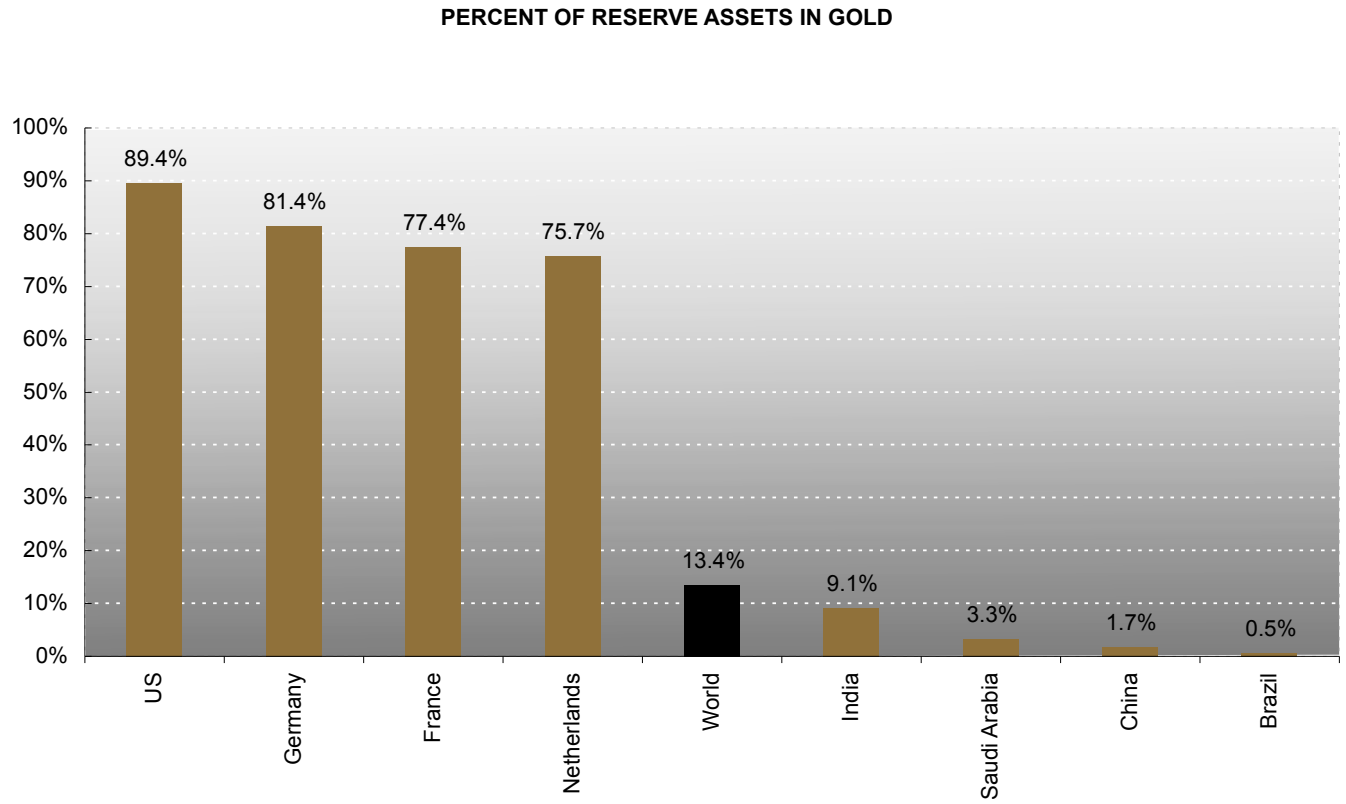
GOLD IS UNDEROWNED

At end of 2010 central bank holdings comprised 13.4% of global monetary reserves. Exclude the US holdings and this number falls significantly to 7.4%.

Remove the 13 developed countries and this drops to 1.9% ($174 billion of the $9.2 trillion reserves). China has begun to redress this balance...



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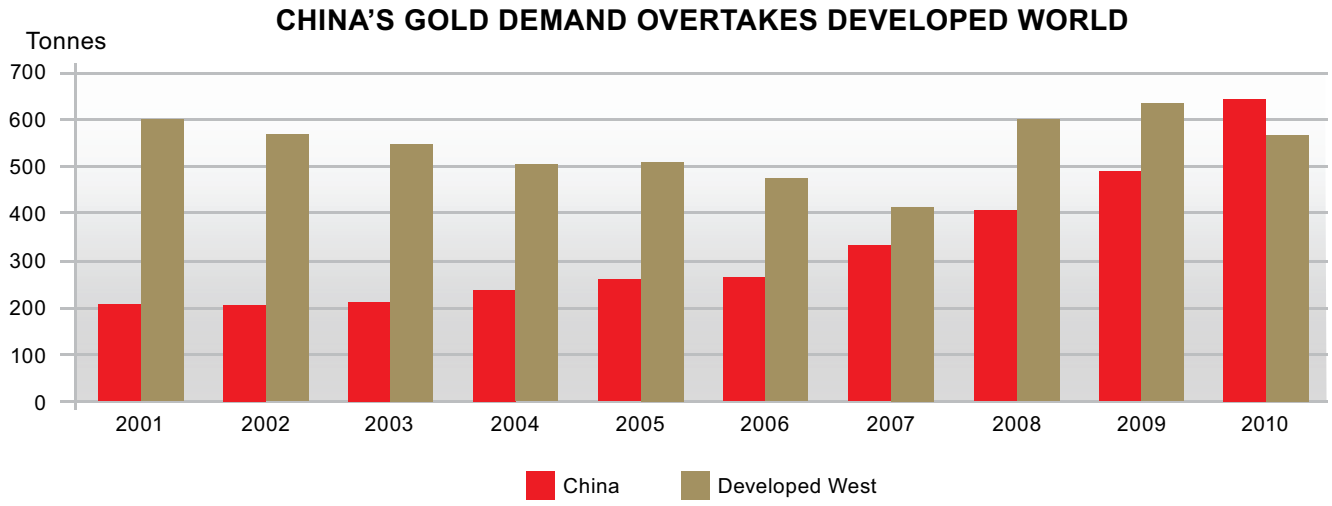
GOLD ATTITUDE: 'MIND THE ICBC GAP' AND 'FU' (JOY)

China investment demand since 2008 has risen 178% from 1.1 million to 7.5 million troy oz, whilst fabrication demand rose only 26% from 11.3 million to 14.3 million troy oz.

As a consequence China total gold demand has surpassed that of collective Western demand. The advent of ICBC GAP program and 'Fu' – Only Gold Gift Bar sets the future trend for global gold investment.



Note: Demand includes gold jewelry and bar and coin demand only. Gold colour represents Q1 2011.
•Developed West includes U.S., France, Germany, Italy, Switzerland, UK and other Europe
Source: GMX World Gold Council

Source: US Global Investors, WGC, CPM Group

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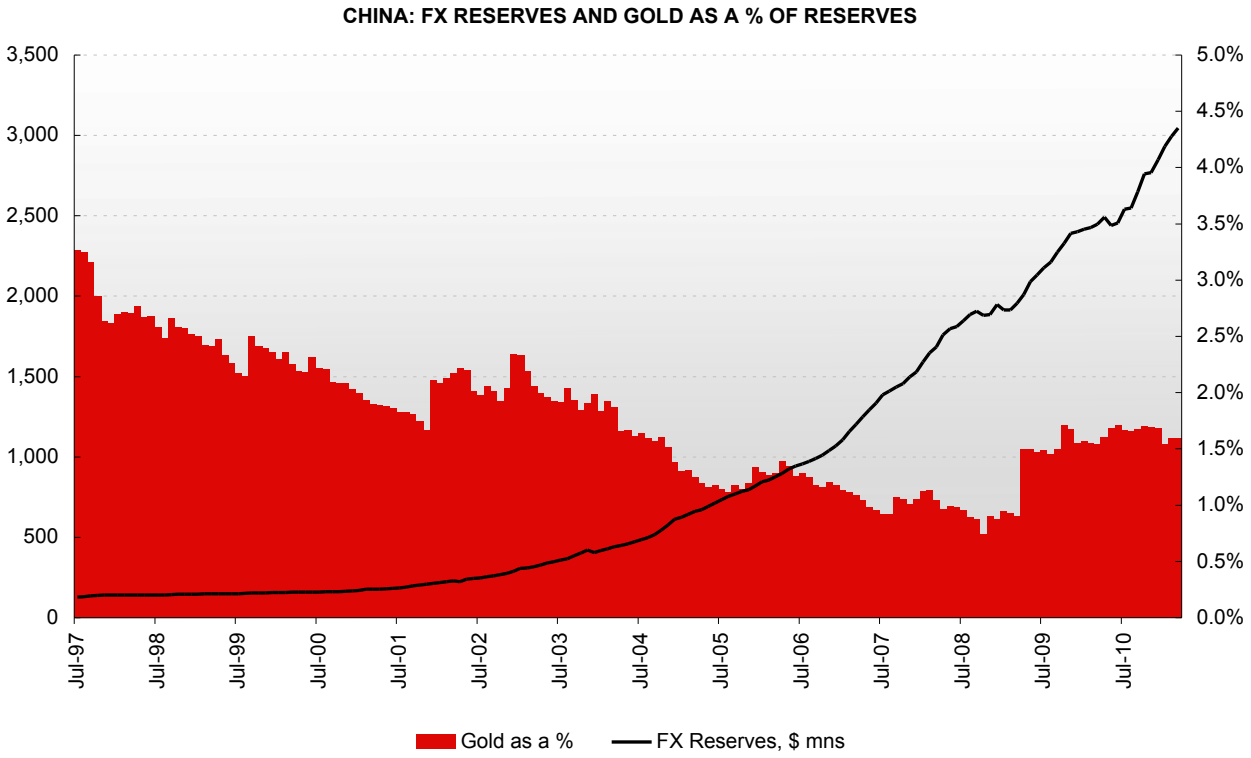
OWN WHAT CHINA (PBOC) IS SHORT OF

For China to get to the 50% world average gold/reserves ratio common before the 1980s, the PBOC would need to buy 32,000 tonnes of gold. At current rates of production this is 13 years' mining supply.



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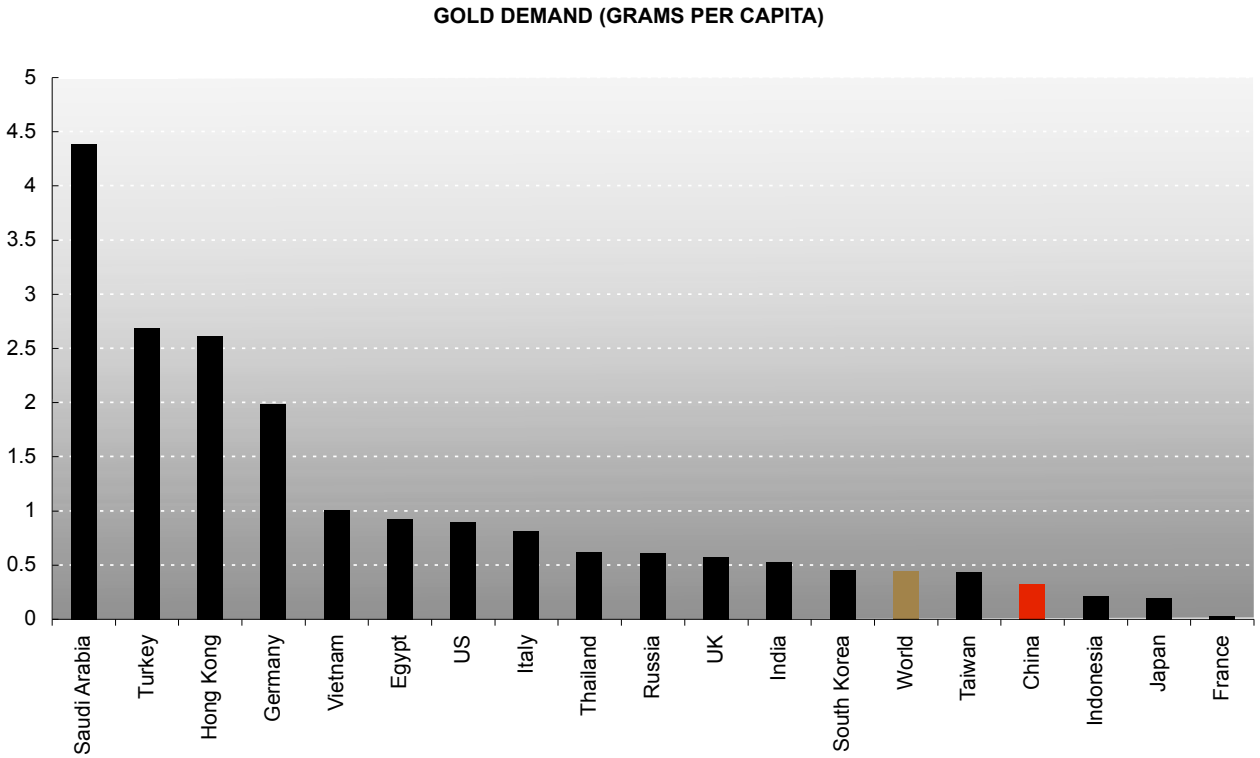
GOLDEN DEMOGRAPHICS: EMERGING MARKET OWNERSHIP IS LOW

It's not just emerging central banks that are underinvested. On a per capita basis, China and India own much less gold than many other countries, as well as below the world average. This is noteworthy for two gold loving countries.



Source: UN, WGC

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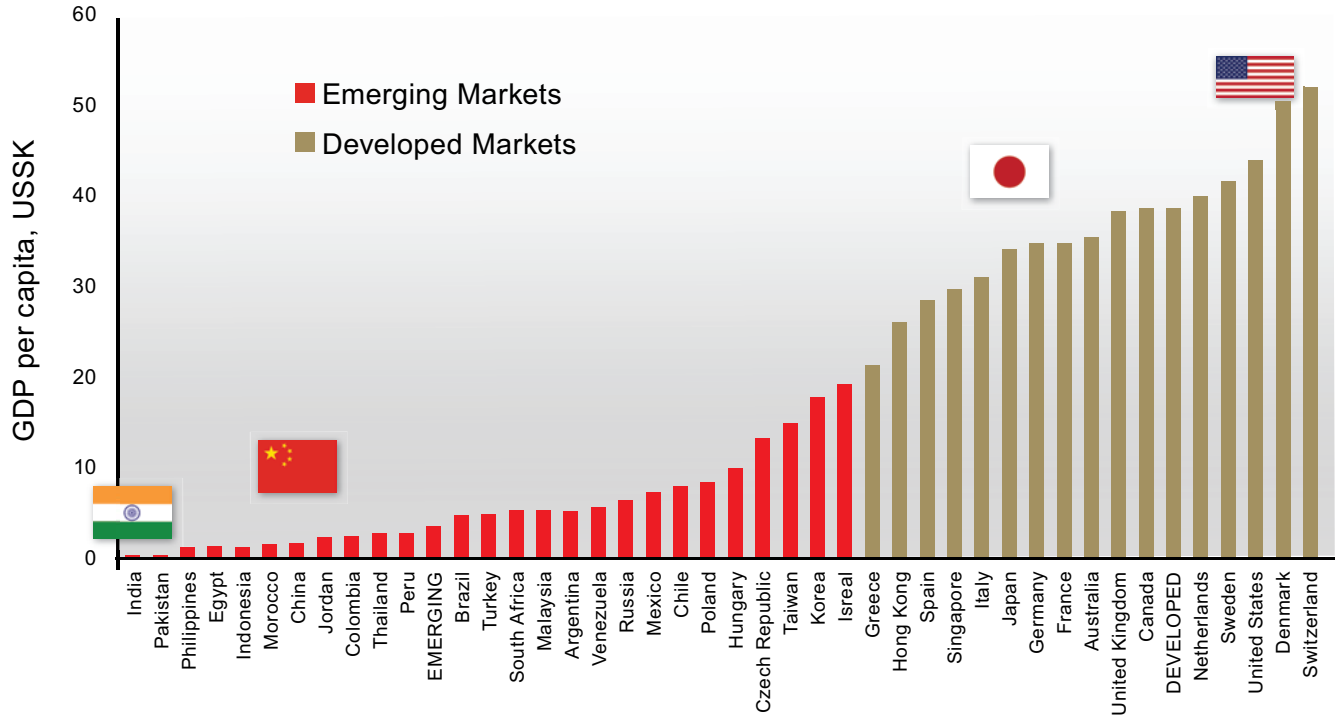
GOLDEN DEMOGRAPHICS

Asian incomes set to rise exponentially. EM GDP per capita is under $4,000 versus over $40,000 for developed countries. Since 2000 China's per capita real income has risen from $3,000 to $7,000; this leaves twice as much to spend or save.



Source: IMF, US Global Funds

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GOLDEN DEMOGRAPHICS

Emerging population growth has coincided with industrialisation and rising incomes. This is the positive side of demographics as consumption and savings will rise. Gold has begun to be a beneficiary.

E7 AND G7 POPULATION VS GDP

E7	Population (million)*	Nominal GDP (bn USD) 2009*
CHINA	1324	4985
INDIA	1157	1310
INDONESIA	240	540
BRAZIL	199	1572
PAKISTAN	181	167
RUSSIA	140	1231
MEXICO	111	875
TOTAL	**3352**	**10679**
	49% of world total	**18% of world total**

G7	Population (million)*	Nominal GDP (bn USD) 2009*
USA	307	14256
JAPAN	127	5068
GERMANY	82	3347
FRANCE	64	2649
UK	62	2175
ITALY	58	2113
CANADA	33	1336
TOTAL	**734**	**30943**
	11% of world total	**53% of world total**

Source: US Global Research
**As of December 2009*

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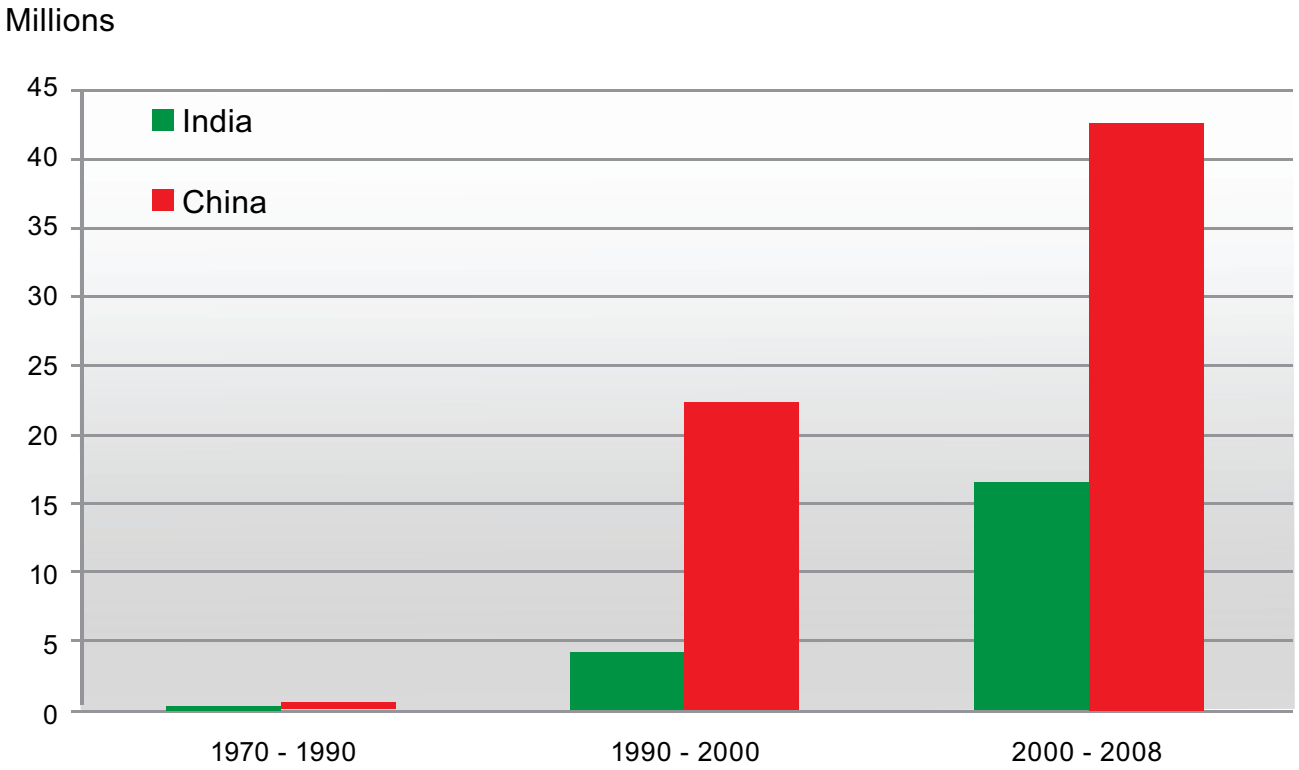
GOLDEN DEMOGRAPHICS: THE GOOD SIDE

The Asian Middle Class have arrived.

AVERAGE ANNUAL GROWTH IN MIDDLE CLASS + POPULATION



Source: IMF

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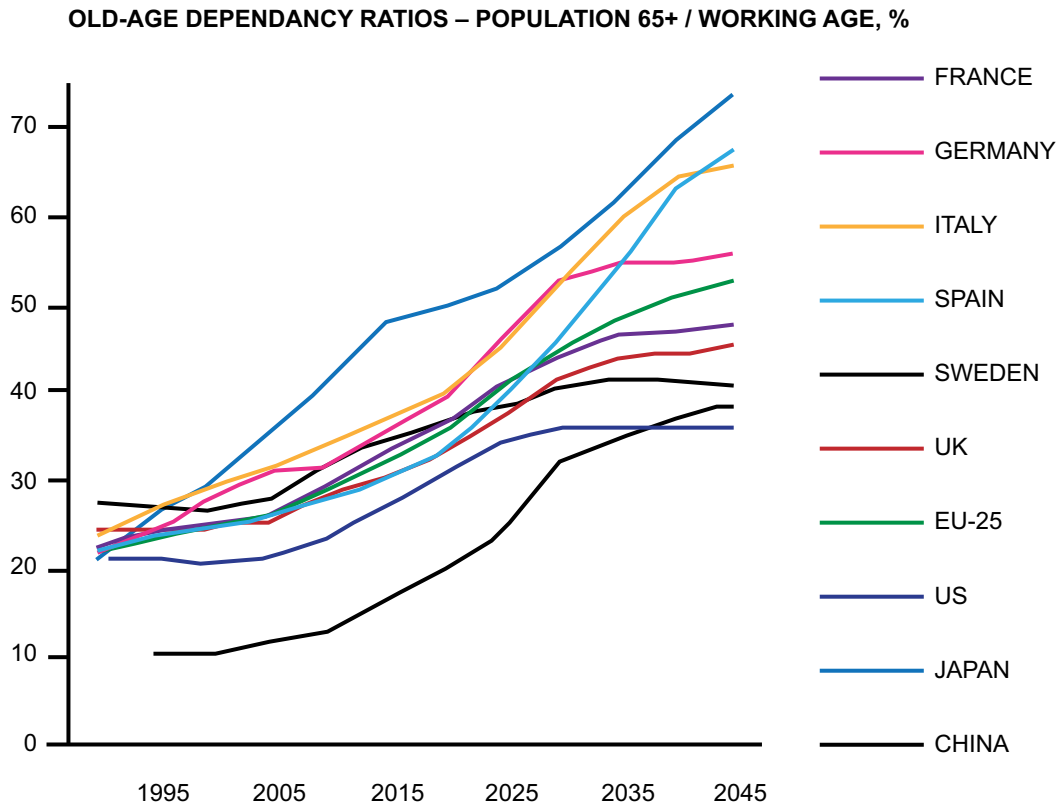
GOLDEN DEMOGRAPHICS: THE BAD SIDE

Ageing Society: Fewer Taxpayers, More Pensioners.

A third of expenditure for governments is age and health related costs, which will surge as a generation of baby-boomers retire and dependency ratios worsen (next 15-20 years).



Source: CBO, European Commission, National Institute of Population and Social Security Research

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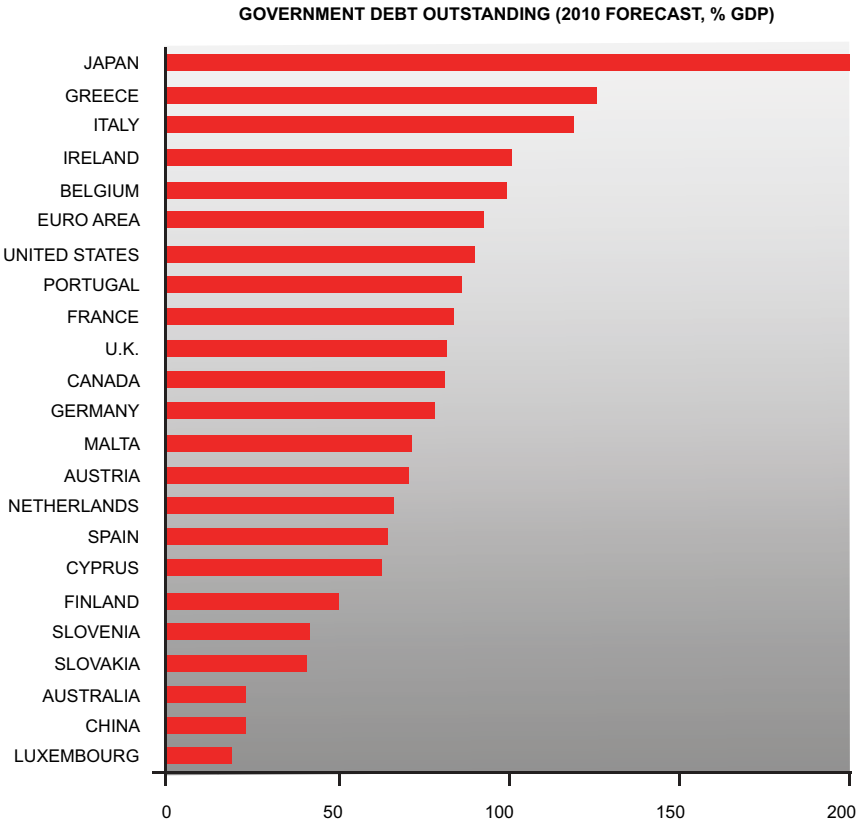
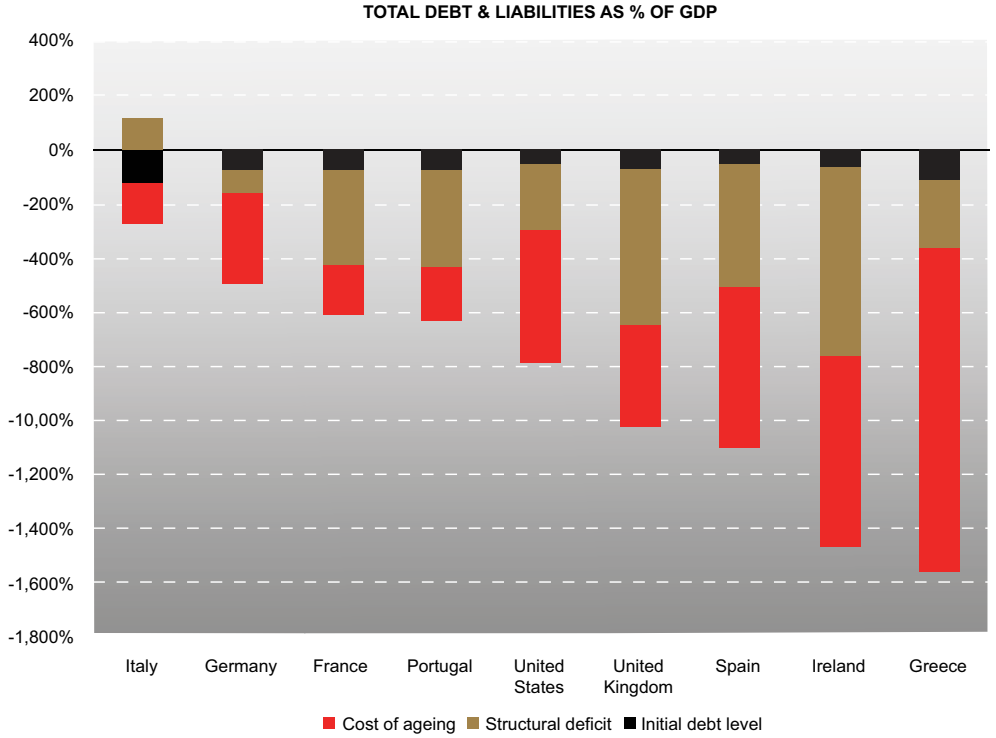
EXCESSIVE DEBT SEES TRANSFER OF DEBT TO GOLD

Debt has risen exponentially throughout this fiat currency system. Servicing debt is problematic for West when they have an ageing population. Politically, reducing pensions is intolerable.





Source: EU Commission, Eurostat, CBO, IMF, Morgan Stanley Research

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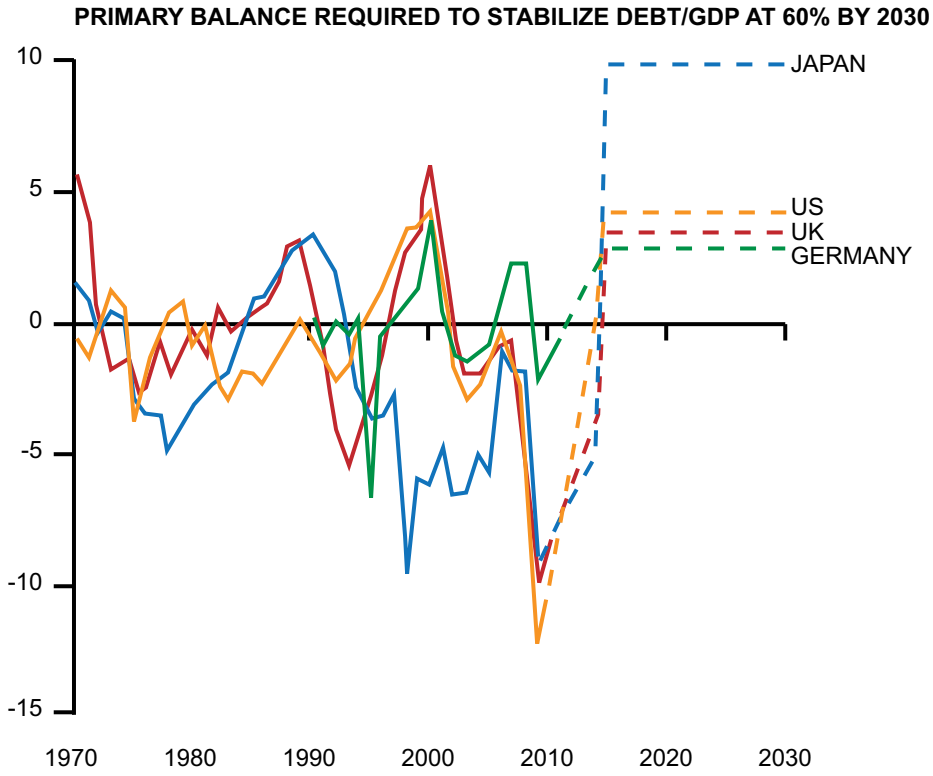
GOVERNMENTS WILL BE UNABLE TO REDUCE DEBT LEVELS

Long-term stable level of government debt to GDP approximately 60%, the ageing population negates likelihood of this target by 2030. Governments need to run a consistent primary surplus (ex-ante interest) of > 4%, ie achieving a run of 15 years at the best levels of surplus ever, to meet target.



Source: Citi Investment Research and Analysis, IMF, OECD. Projections taken from IMF Staff Position Note SPN/09/21.

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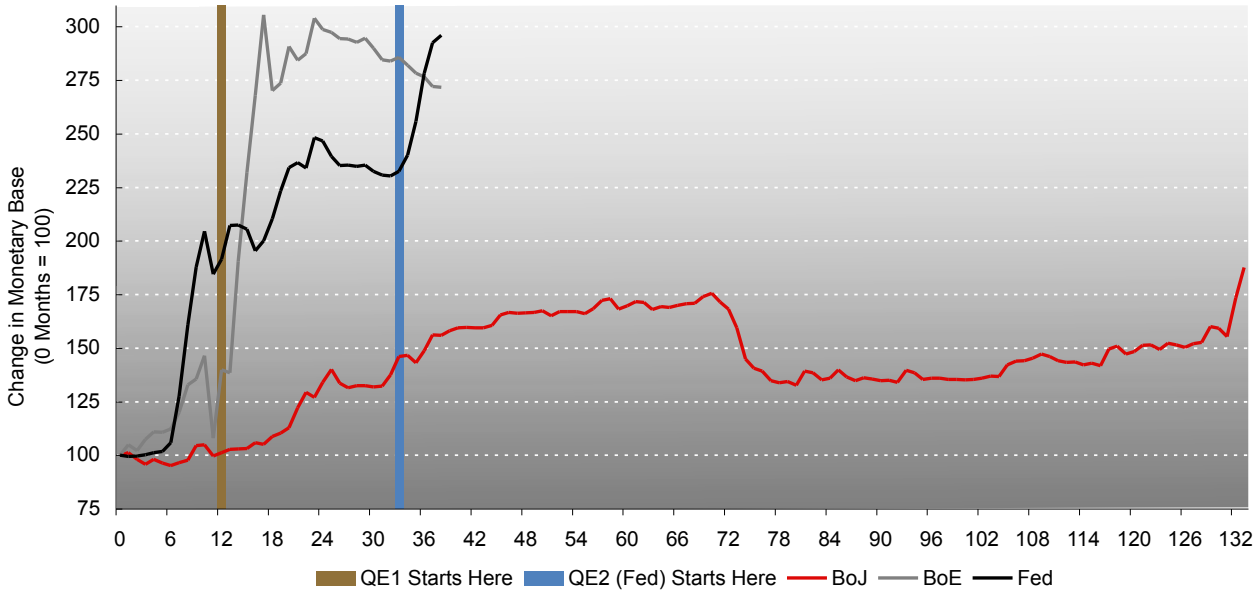
DEFICIT FINANCING – MORE DEBT ISSUED = MORE MONETISATION

To fund fiscal gap, monetisation will rise. Lenders will lose confidence in the ability of Western governments to service their debt at a particular rate.

EXPANSION OF MONETARY BASE FOR BOJ, BOE AND FED
0 on Horizontal Axis = March 2000 for BoJ; March 2008 for BoE and Fed



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GOLD IS UNDERVALUED

To create debt as we can see central banks issue currency in electronic form.

1914 Federal Reserve Act: Fed could create currency and reserves as long as Federal Reserve kept a minimum of 40% gold reserve against FRN (dollars).

$$\text{US Money Supply Backed by Gold} = \frac{\text{US Gold Reserves} \times \text{Gold Price (\$/oz)}}{\text{US Monetary Base}}$$

$$\text{Theoretical Gold Price (\$/oz)} = \left(\frac{\text{US Monetary Base} \times 0.40}{\text{US Gold Reserves}}\right)$$

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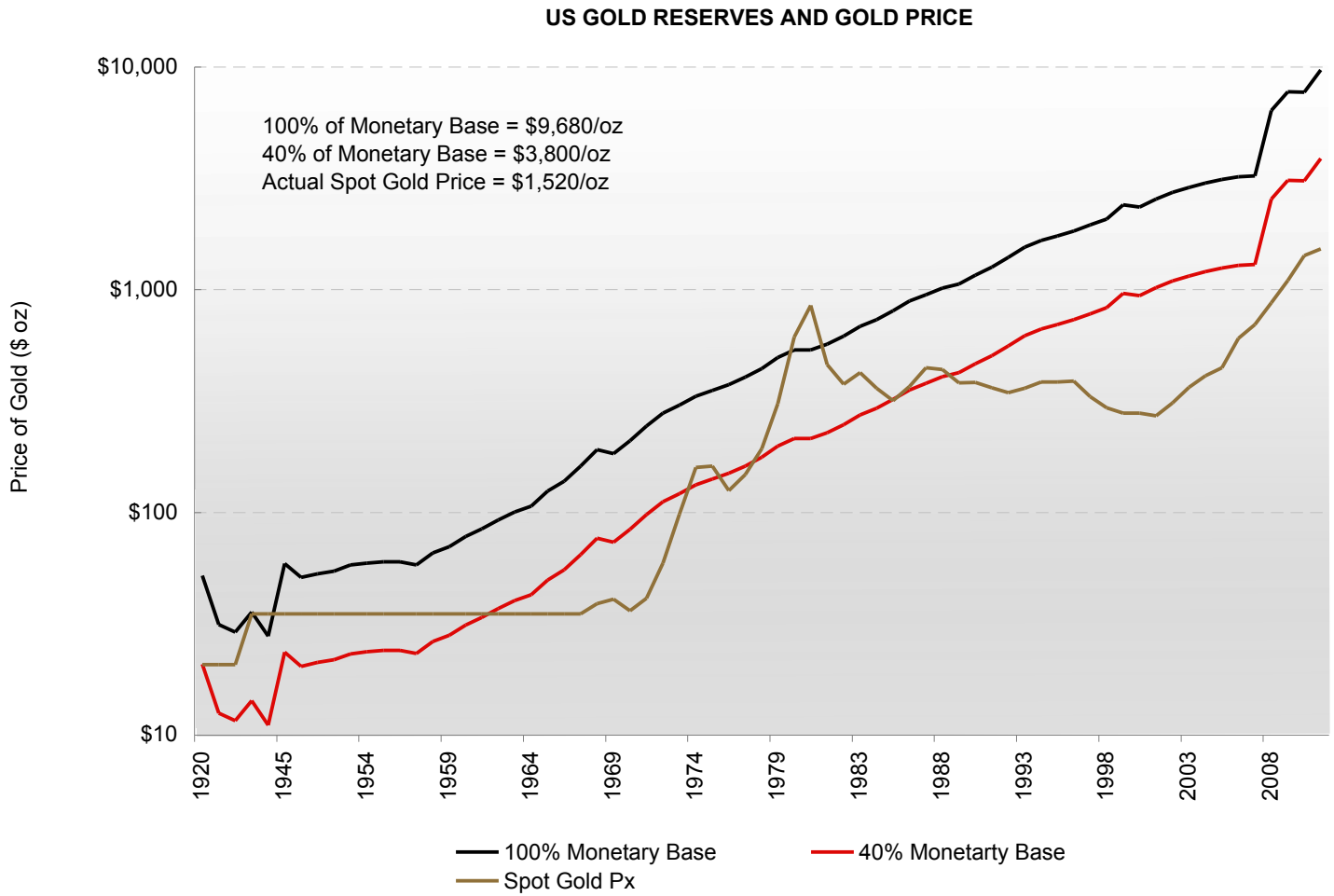
GOLD IS UNDERVALUED

Solving our equation for additional monetary base of $600bn by June 2011, using 40% rule implies a fair value gold price of U$4,000 / oz.



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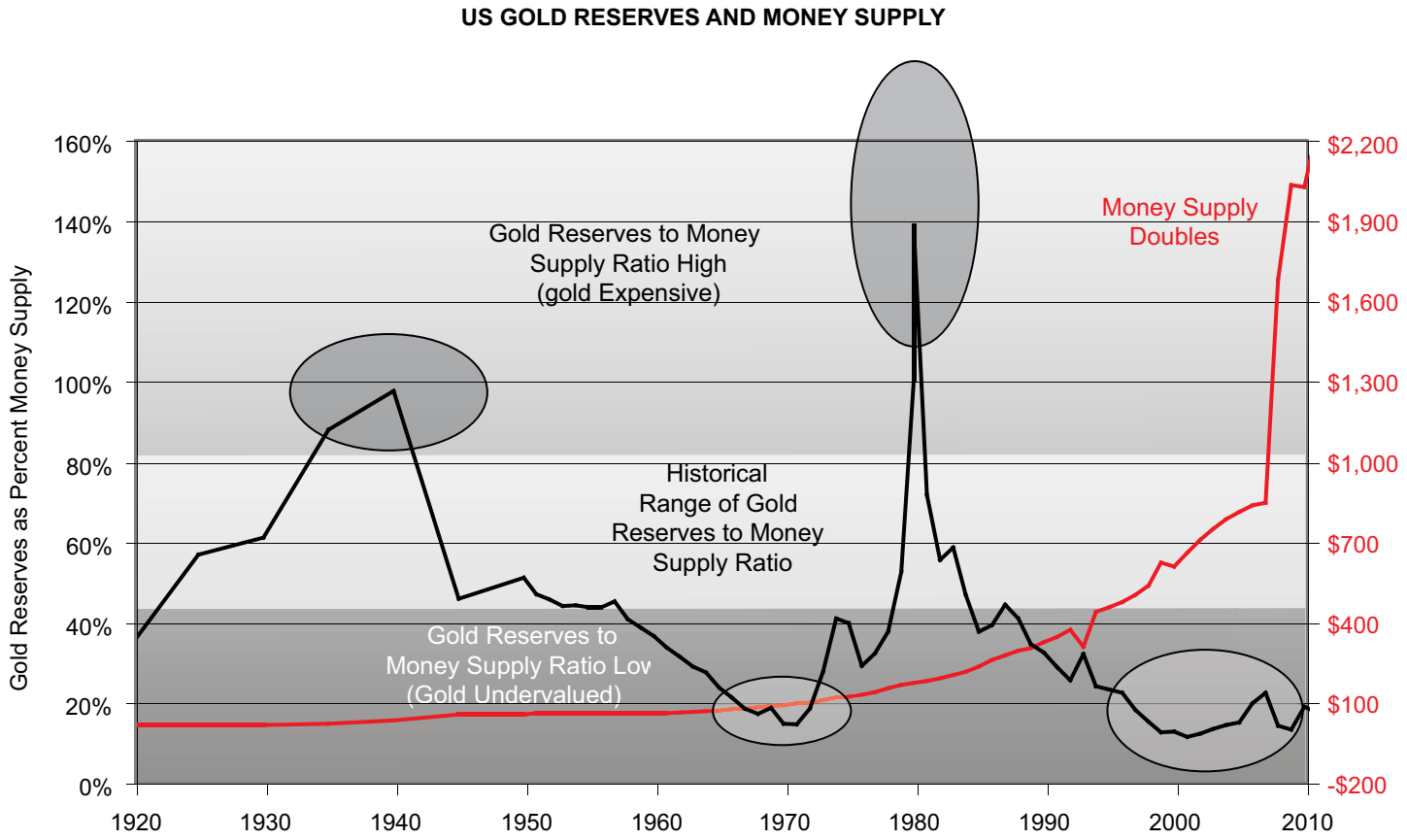
GOLD IS UNDERVALUED

There are many ways of valuing gold. The most common is in USD terms. An unstable numeraire makes valuation of all assets very hard. **As the supply of dollars increases, gold has the illusion of looking more expensive than it actually is.**



Source: Thanks to EIV Investments, LLC : Dr. F. Conrad Engelhardt IV

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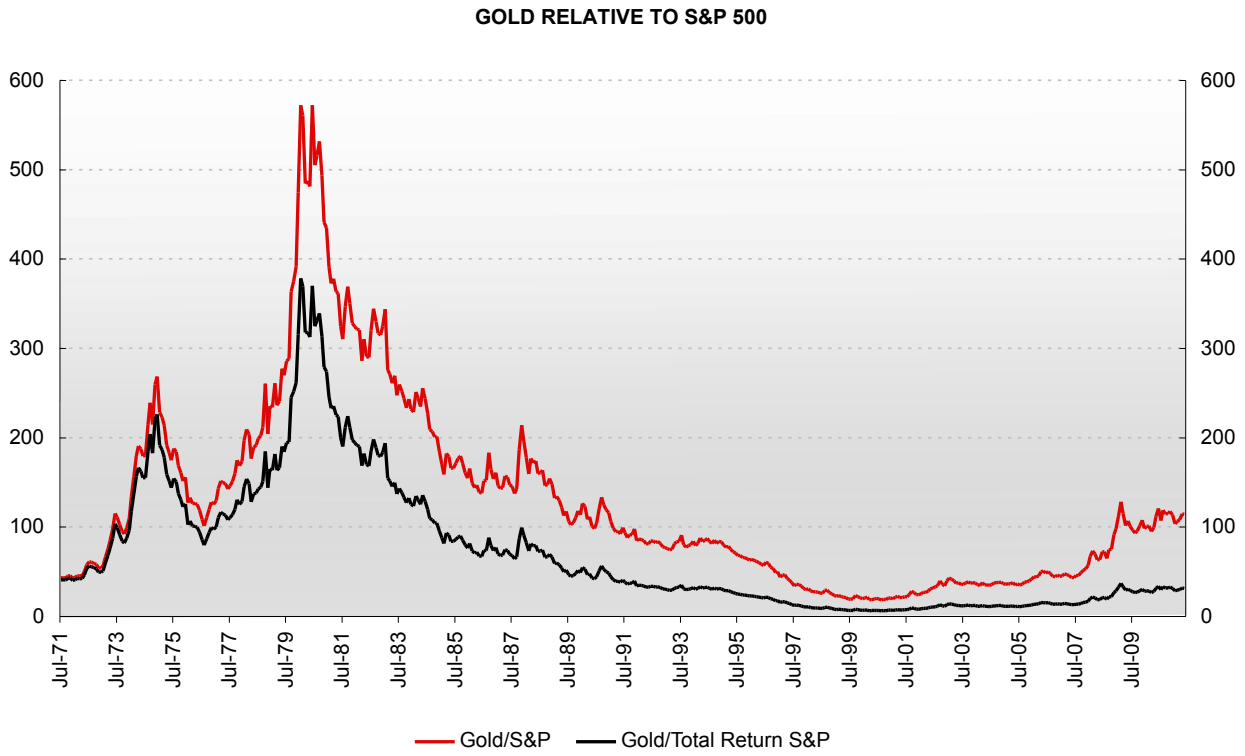
GOLD IS UNDERVALUED

Gold also remains undervalued in equity terms. The gold ratio to the S&P500 is significantly lower than the peak it reached in the early 1980s.

Gold vs the S&P would have to go up 5 times to match the 1980 highs. In total return terms, **it would have to go up 12 times.**



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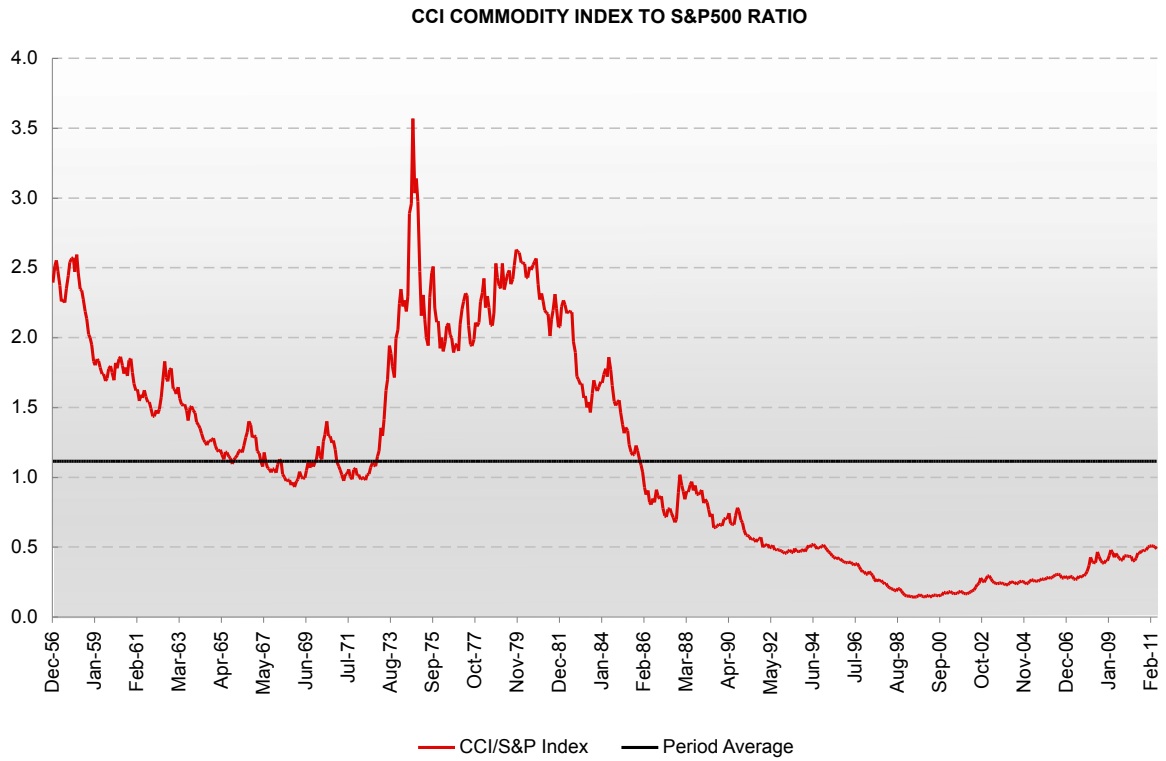
COMMODITIES AS A WHOLE ARE UNDERVALUED

Consider the ratio of a basket of commodities to the S&P500. Commodities are seriously undervalued compared to US equities.

The CCI Index would have to more than double (ceteris paribus) for it to buy the same amount of equities as the long-term average would imply.



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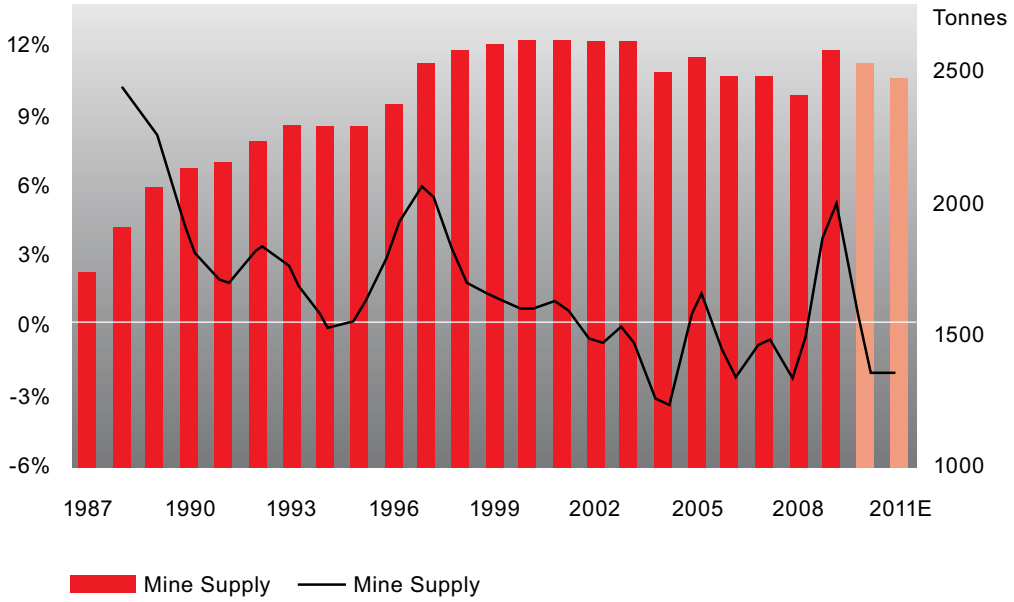
GOLD UNDEROWNED AND FALLING SUPPLY, RESERVE GRADE

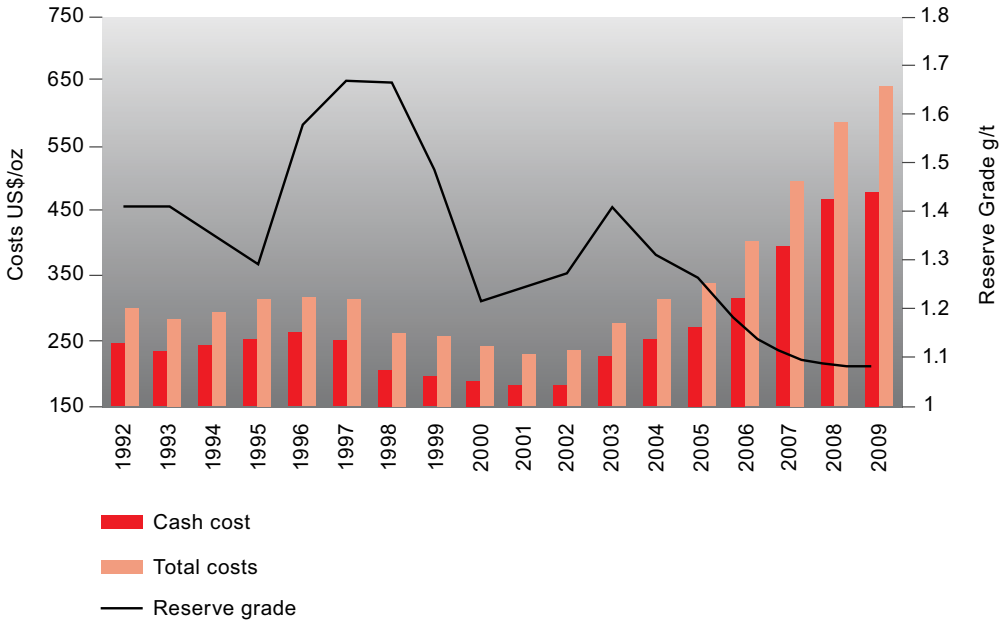
So much demand but not so much supply. There have been less than 5 gold discoveries over 10 million troy oz. this past decade. Barrick needs to replace 9 million troy oz. of production a year.

GOLD MINE SUPPLY HEADING DOWN



Source: World Gold Council, UBS

GLOBAL MINE COSTS AND RESERVE GRADE g/t



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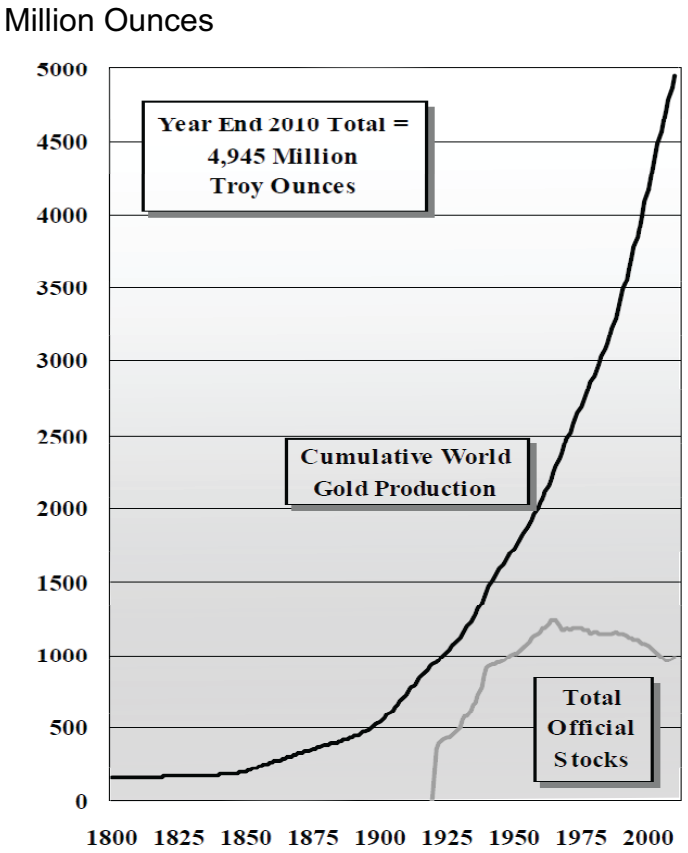
GOLD: CUMULATIVE WORLD PRODUCTION AND DISTRIBUTION

Global gold production accumulated since beginning of man is approximately 5 billion troy oz. This is not the same as available gold ounces.



Estimated Data as of End 2010
Disposition (Million Troy Ounces)

Industrial Use, Undetermined, or Lost: 541

Jewelry, Decorative and Religious items: 2,217

Private Stocks: 1,145

Official Reserves 1,042
FSU: 36
Central Banks: 901
IMF and BIS: 105

Source: CPM Group

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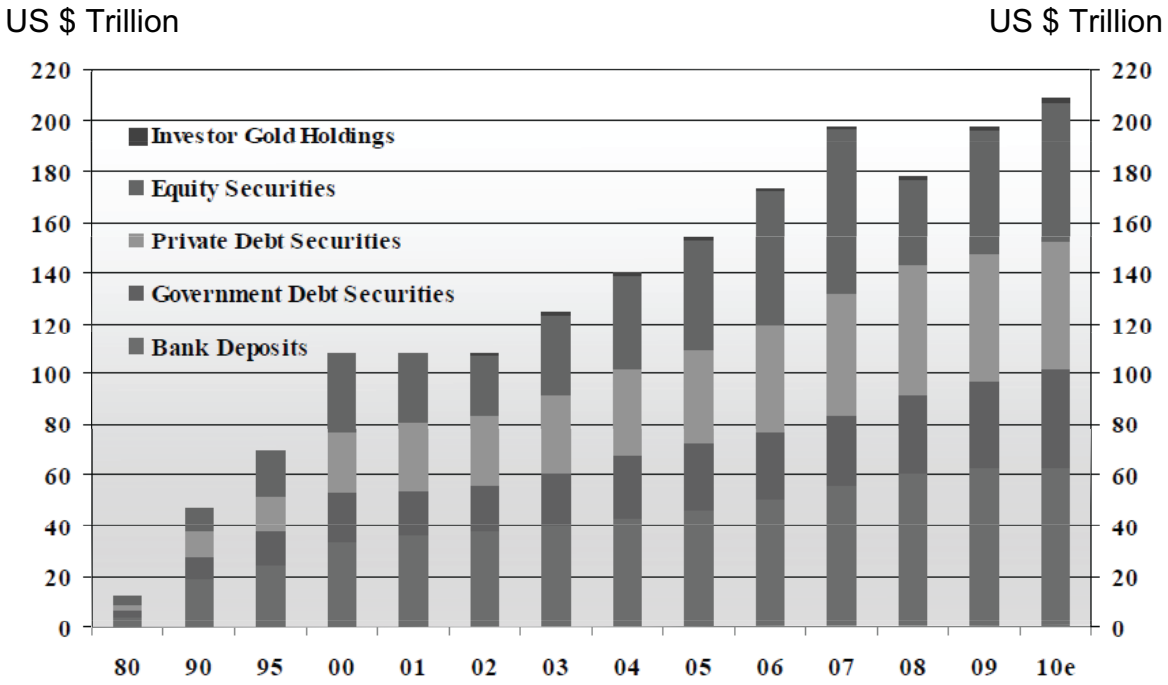
GLOBAL FINANCIAL ASSETS EXPLOSION

Global financial assets have risen 17-fold over the last 3 decades from $12.3 trillion to nearly $210 trillion.

Gold has not kept up with this rate of growth, and this doesn't account for the quadrillion dollars in worldwide derivatives.



Source: World Federation of Exchanges, The Economist, McKinsey, IMF and CPM Group

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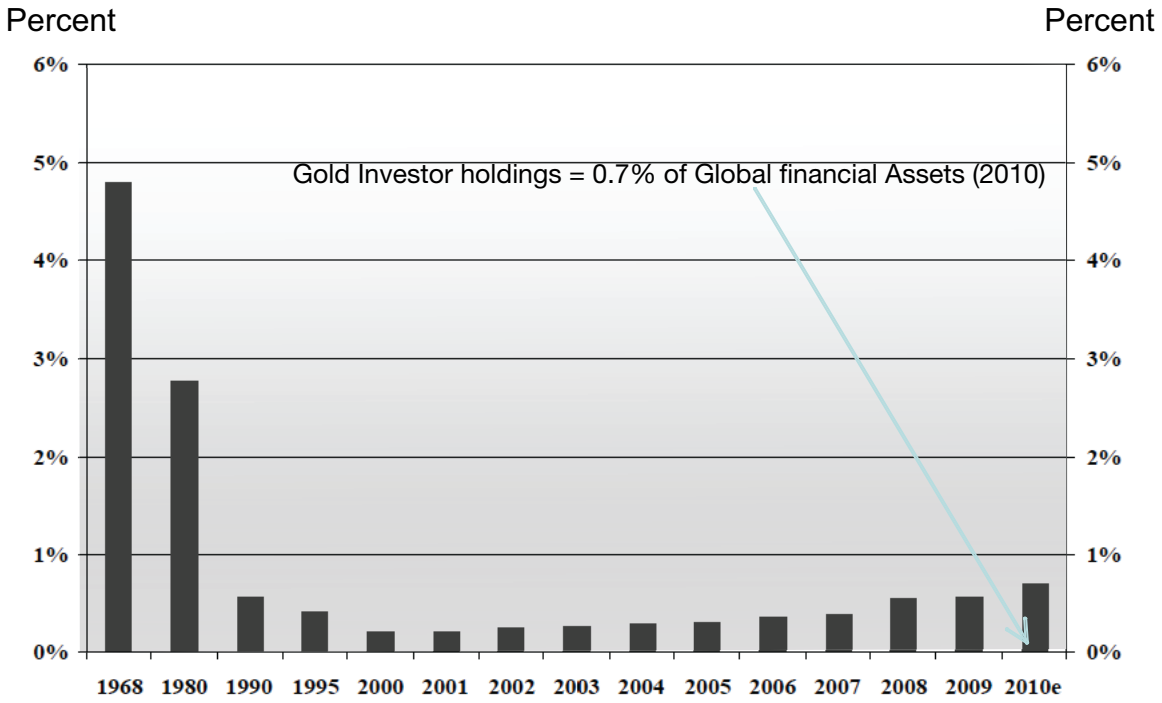
GOLD IS A "BUBBLE" – A COMMON MISCONCEPTION

Gold investor holdings stands at $1.5 trillion (end 2010), 0.7% of Global Financial Assets (GFA). In 2000 gold holdings were worth $227 billion, or 0.2% of GFA, but this isn't the whole story...



Source: World Federation of Exchanges, The Economist, McKinsey, IMF and CPM Group, as of end of Dec. 2010

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GOLD IS UNDEROWNED – BASIC MATHS

- Today 0.2% would be worth $1.2 trillion ($1500 troy oz. Au) or 0.6% of Global Financial Assets (GFA).
- Therefore new investment gold only provided 0.1% increase in % gold holdings.
- In 1968 to 1970 % gold holdings of GFA = 5%, to attain this % at current values of gold ($1,500), $10.7 trillion dollars need to be invested.
- $10.7 trillion is equivalent to 7.1 billion troy oz at $1,500 or 1.42x gold ever produced.
- 7.1 billion troy oz. is 4.4 x known gold reserves (based on US Geological Survey).
- Clearly not only is public ownership miniscule, but to return to the 70s % holdings requires too much gold than these prices can handle.
- **This transfer of gold will take place at much higher prices.**

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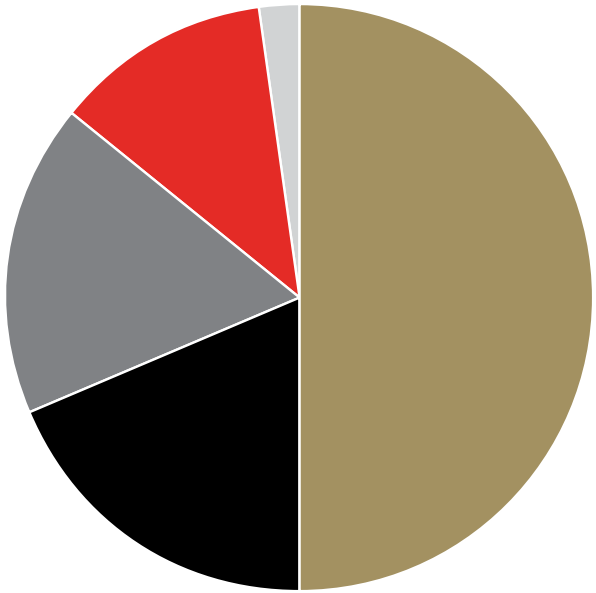
GOLD IS UNDEROWNED AND NOT FREELY AVAILABLE

Of the 5 billion troy oz. or 160,000 plus tonnes of gold ever mined, half is comprised of national artistic treasures, religious artefacts, and heirlooms that will never come back to the market.

Exclude central bank gold and industrial gold, 50% of private holdings and there is only 25 to 35% of readily available gold or 1.5 billion troy oz. We already know we need 7.1 billion oz...

TOTAL ABOVE GROUND STOCKS OF GOLD AS OF 2010 (tonnes)



Jewellery	84,100t	50.0%
Private Investment	31,400t	18.7%
Official Holdings	29,000t	17.2%
Other Fabrication	20,200t	12.0%
Unaccounted	3,600t	2.1%

Source: WGC and GFMS

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GOLD IN A PORTFOLIO

A great enhancer and diversifier

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GOLD IN A PORTFOLIO

- Gold is a very good portfolio diversifier
- There is no such thing as a bad asset class – only a bad time (ie price) to invest
- Irrespective of valuations gold should be part of all portfolios
- Prevailing economic conditions are key when deciding which assets are best to invest in
- Conditions now favour real assets
- Gold is the currency of real rates

Please see the full discussion on portfolio management in our HindeSight Letter February 2011 (located at hindecapital.com/reports)

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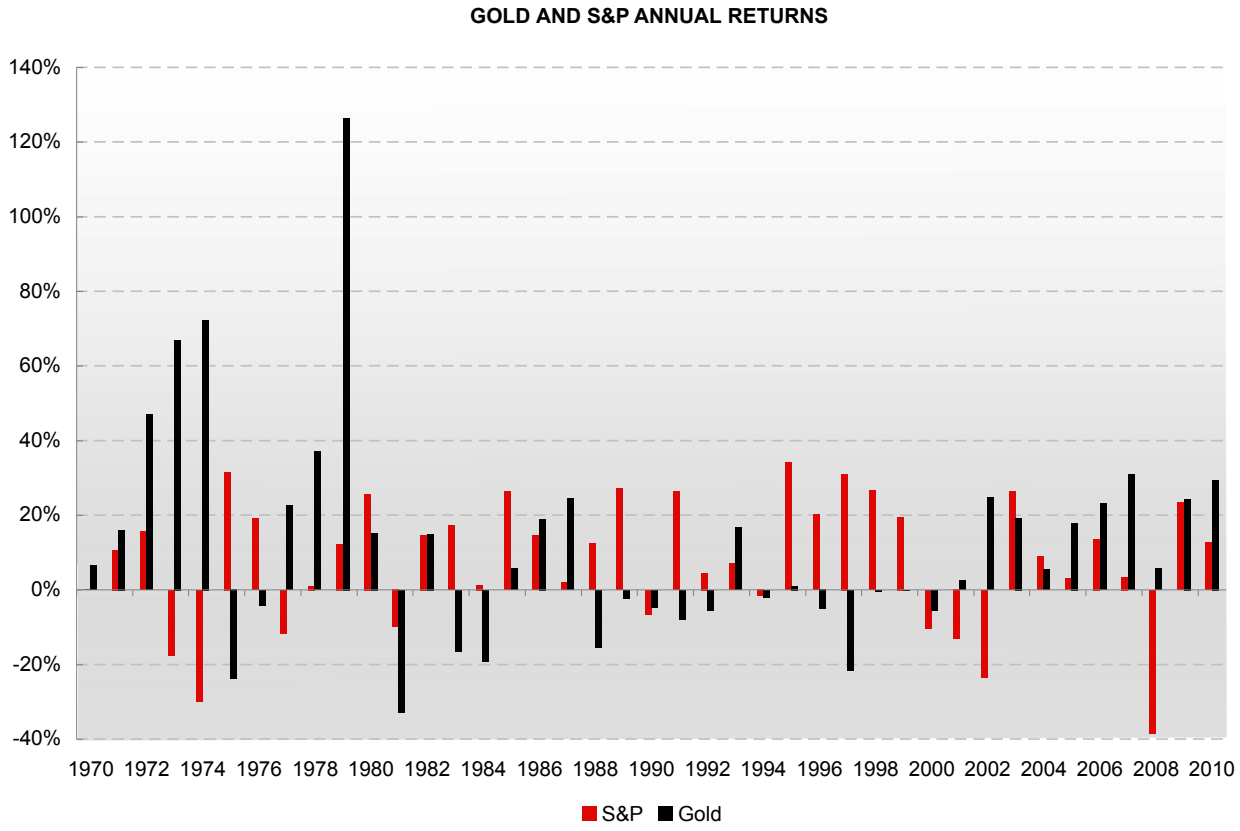
GOLD AND S&P

Gold is an excellent portfolio diversifier. For example, as a complement to an equity portfolio, gold has performed well.

As the chart below illustrates, gold is often up when the S&P is down, and vice-versa. Over the past few years, gold has outperformed developed market equities considerably.



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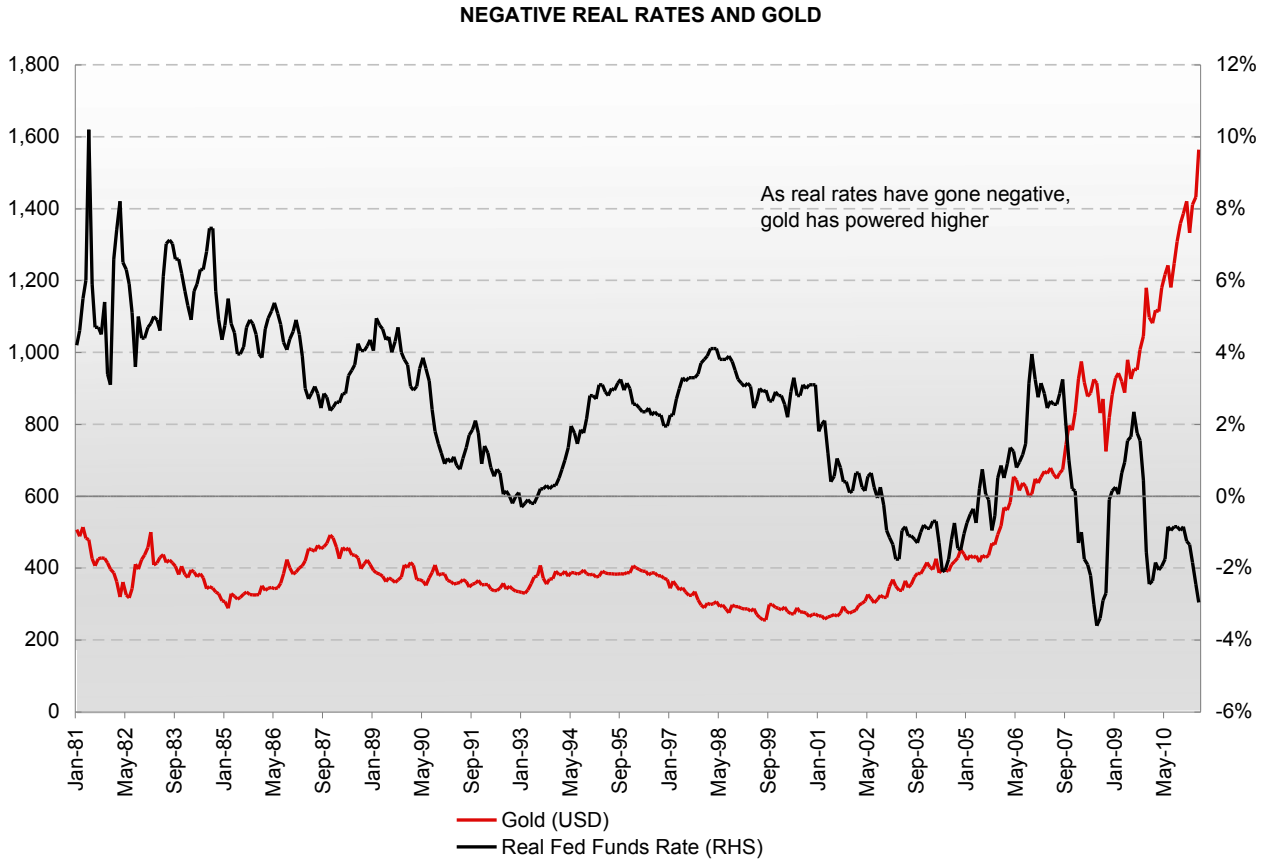
NEGATIVE REAL RATES BENEFIT HARD ASSETS

Real interest rates have been positive for most of the last 30 years. This has been a great boost for government bonds. Equities have benefited too. Now real rates are negative, this will be a tough time for fixed income assets. **Hard assets, however, will perform well.**



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BEST PORTFOLIOS

It should be possible to construct a portfolio that performs in all economic backdrops.

A ‘best’ portfolio should provide **steady**, **unvolatile** returns over the long term, and **not be dependent on particular economic conditions.**

We believe a good starting point is a portfolio consisting of:

- 25% 12m US cash
- 25% intermediate duration US Treasuries
- 25% US equities
- 25% real assets.

Furthermore, we believe gold/precious metals are the best way to express the real asset component of this portfolio.

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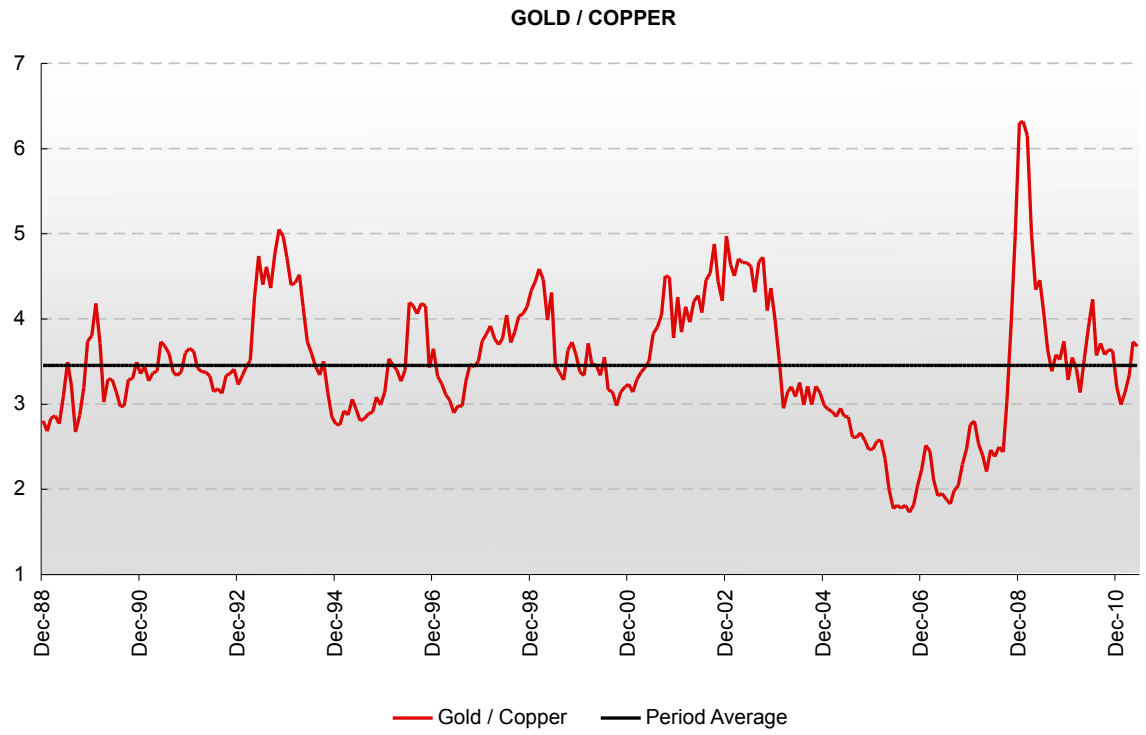
WHY GOLD?

We believe gold is the currency of hard assets.

Owning gold is no different to – and in fact is many ways better than – owning a basket of commodities. The ratio of gold to other real assets mean reverts over time, and most are currently near their long-term average.



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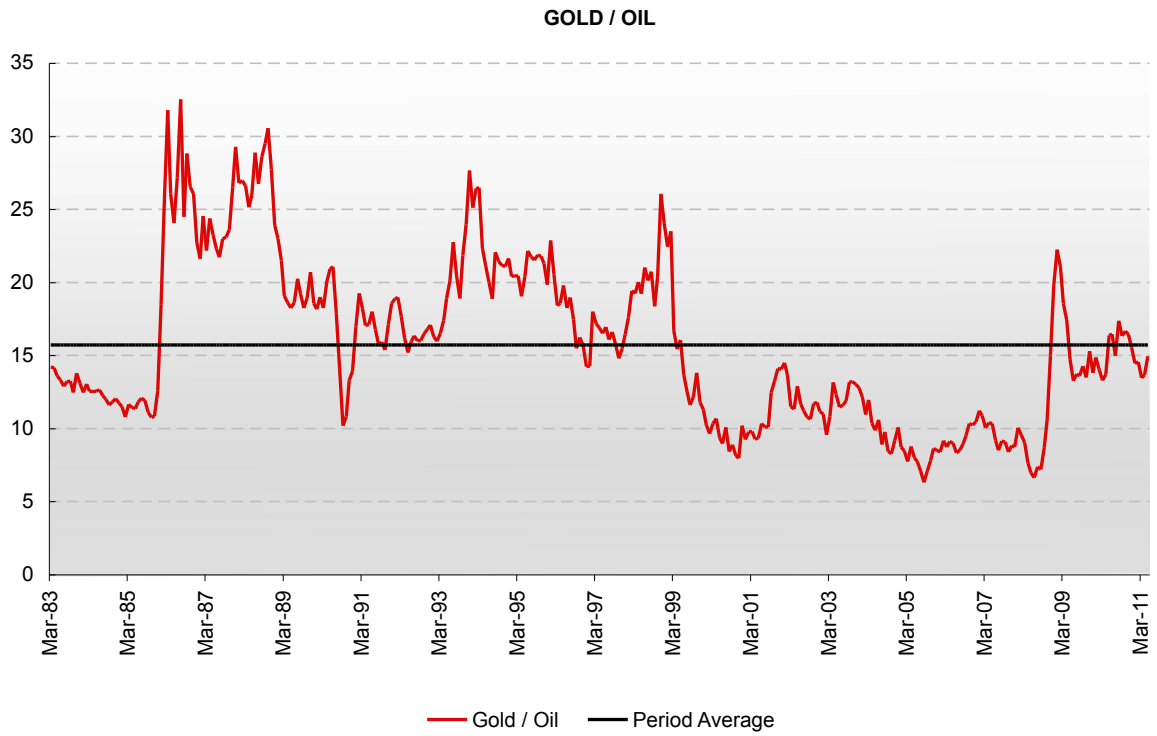
WHY GOLD?



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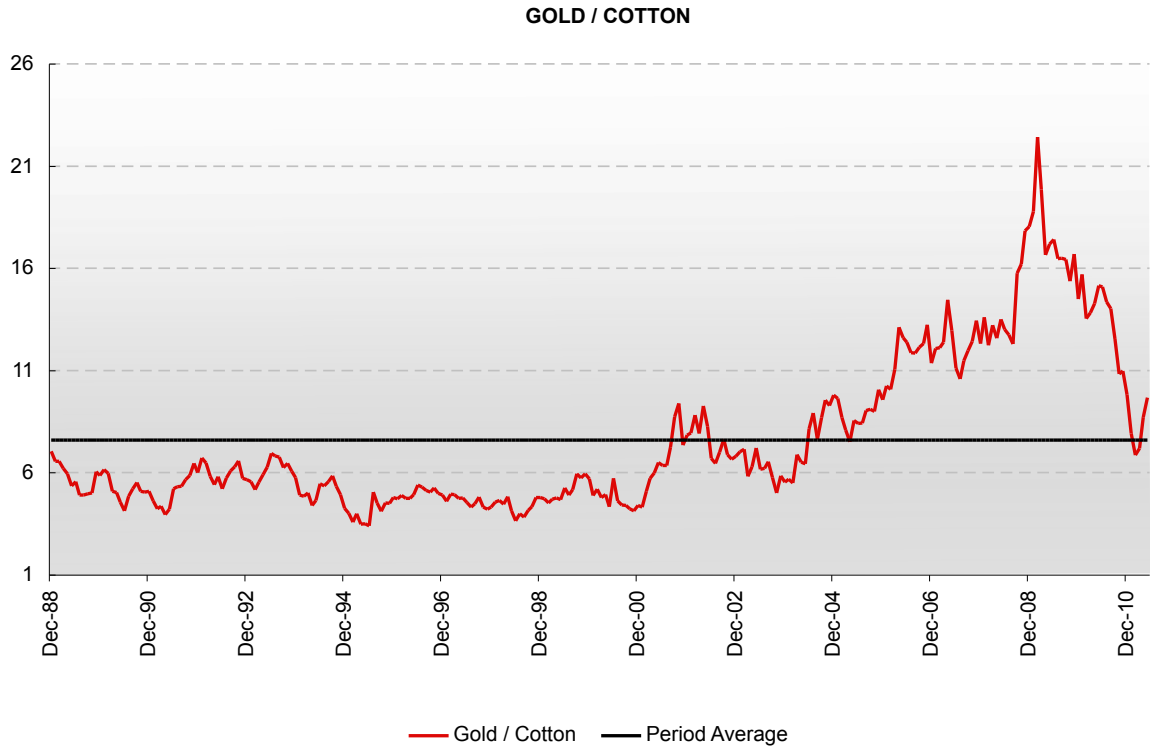
WHY GOLD?



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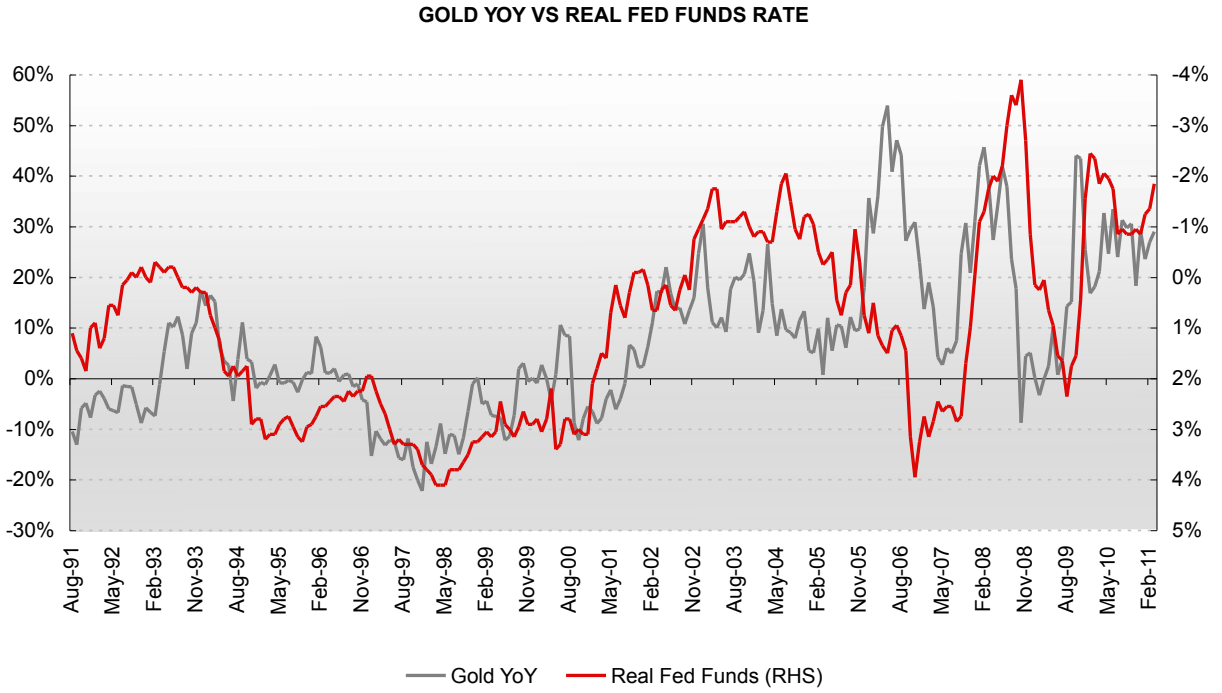
REAL INTEREST RATES DRIVE GOLD

The best predictor of the performance of gold is the level of real interest rates (policy rate minus inflation). Very low real interest rates are positive for gold, and negative real interest rates lead to very large gold price increases.

Rising inflation and accommodative central banks mean the outlook for gold is very positive.



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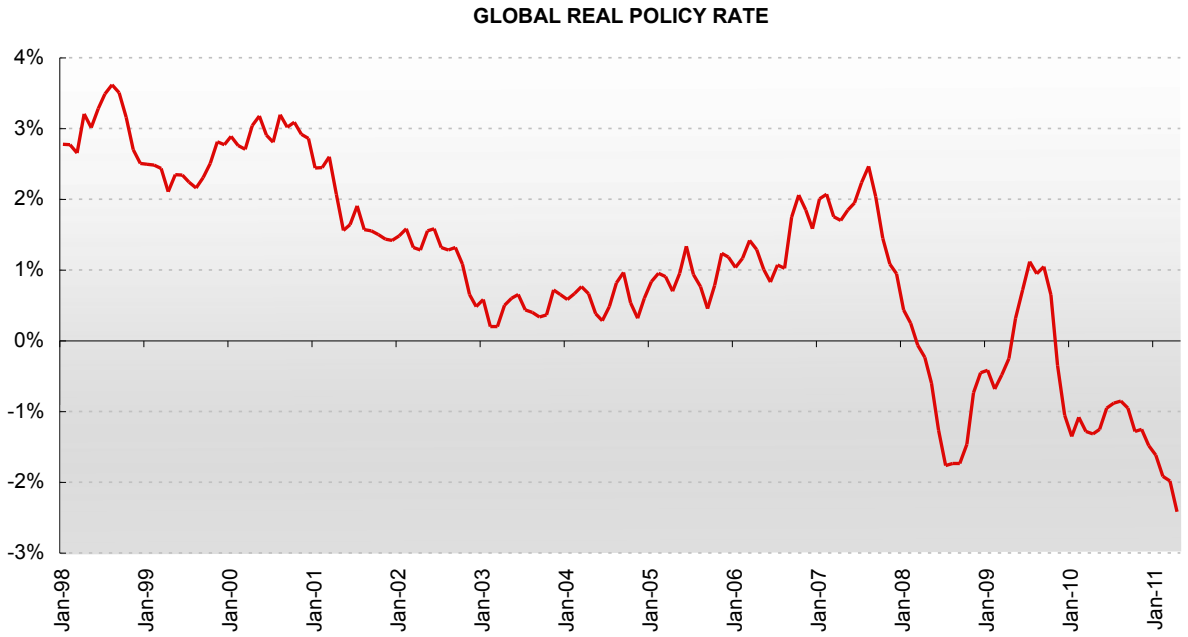
REAL INTEREST RATES GLOBALLY ARE NEGATIVE

Global policy rates are very negative. Almost all of the negative real rates are coming from the extremely loose monetary policies of G4.



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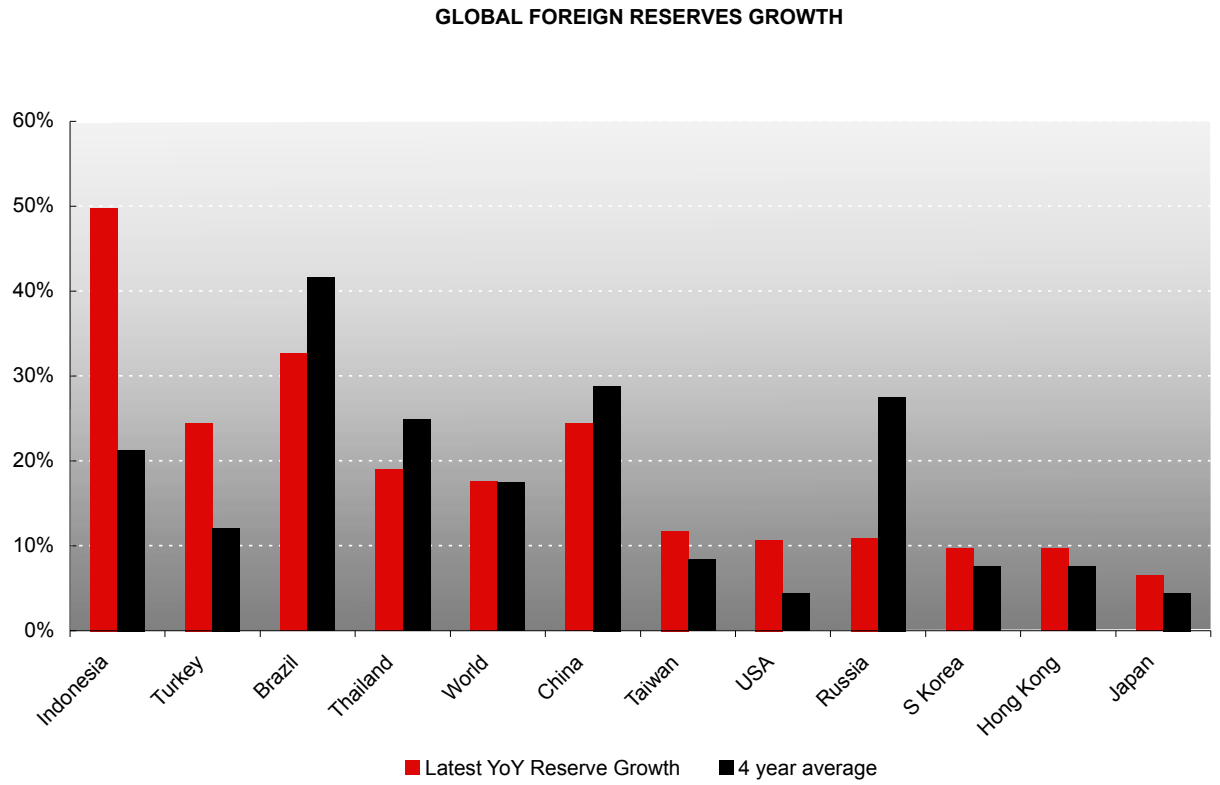
FX RESERVE ACCUMULATION = DE FACTO QE

As the USD weakens, this makes the exports of many Asian economies less competitive. They do not want this.

Thus many countries are intervening to keep their currencies weak. FX reserve accumulation in emerging markets is an informal type of quantitative easing. **In the long run, this is very bullish for emerging markets** (ex-Eastern Europe) **and precious metals.**



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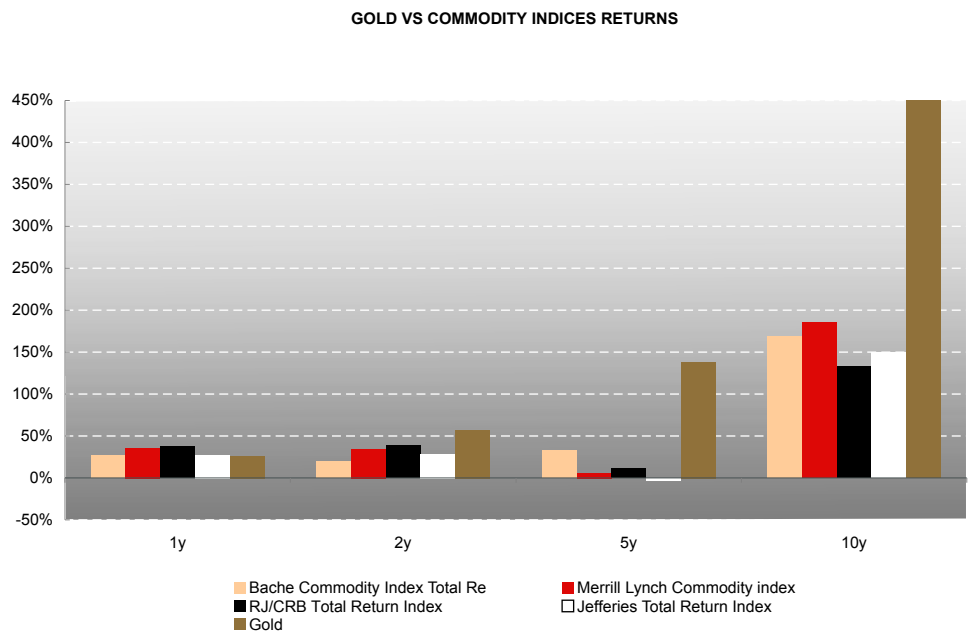
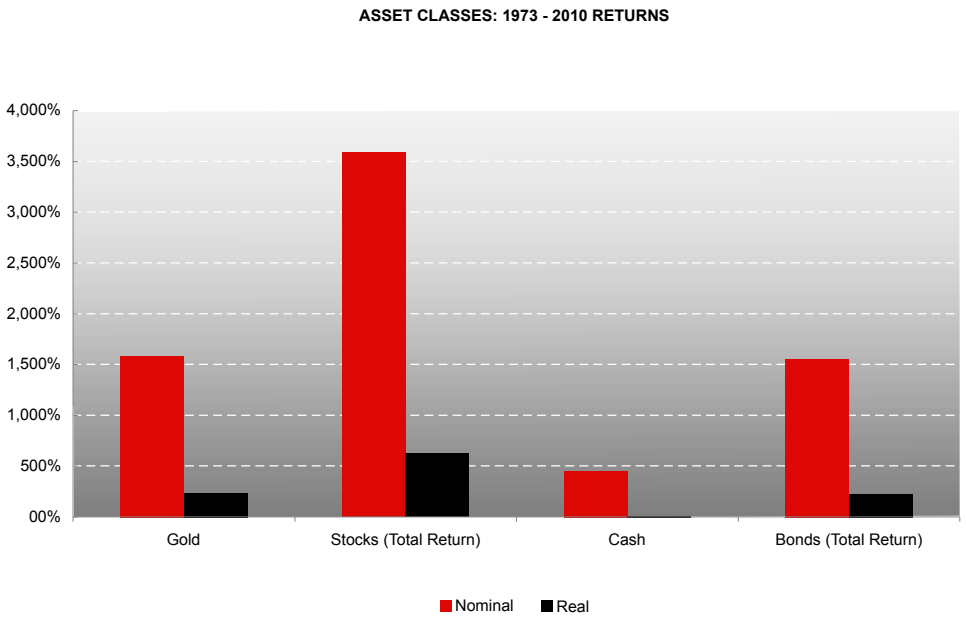
GOLD IS THE CURRENCY OF HARD ASSETS

Over the last decade, gold would have performed better than a portfolio of commodities.

Gold has performed well over the past 40 years. Yet it still remains undervalued.
Gold has great scope to continue to do well in the coming years.





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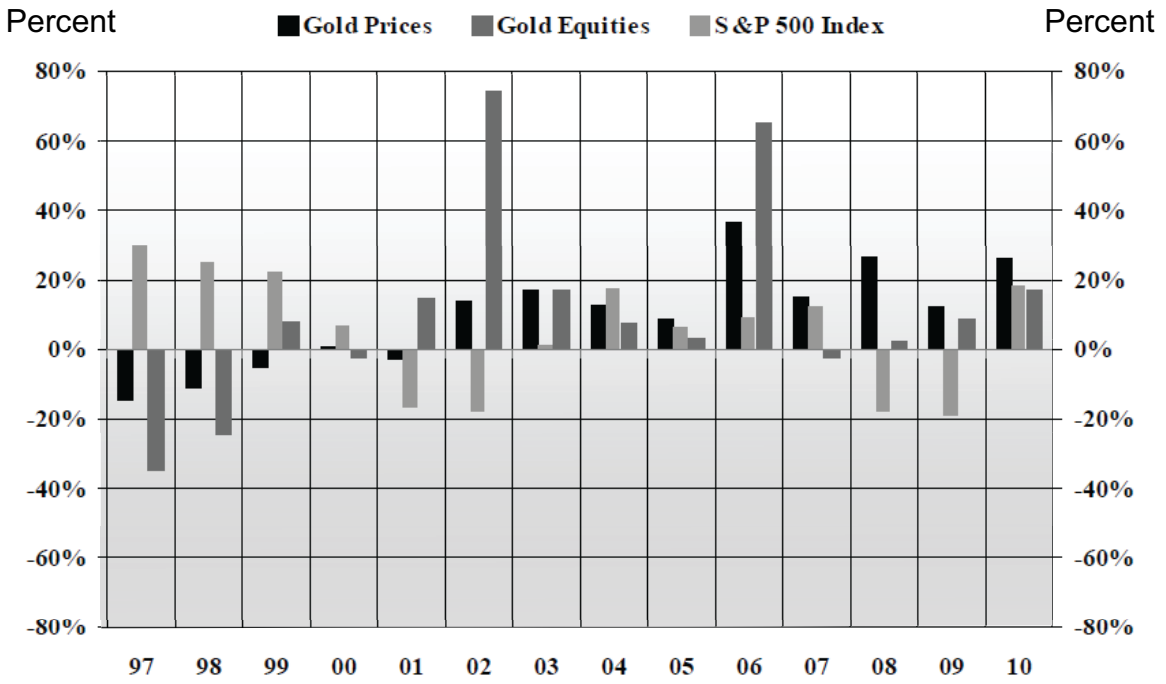
RETURNS: GOLD EQUITIES, GOLD AND S&P500

Between 2002 – 2010 gold has returned 19% annualised, compared with 21% for gold equities. This doesn't tell the whole story.

Clearly buying large capitalised precious metals companies has not provided a good risk reward return structure.



Source: CPM

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WHY HINDE GOLD FUND?



HINDE
GOLD FUND

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HINDE GOLD FUND

Hinde Gold Fund maintains a managed, long-biased position in gold. The Fund offers investors the opportunity to seek preservation of capital in gold, against the potential erosion of purchasing power of fiat 'paper' money.

- The core of the Fund's investment is in **allocated physical gold** stored in secure vaults in a leading Swiss private bank, Julius Baer.
- The Fund provides exposure to the upside appreciation in the precious metals sector while smoothing out the downside volatility. We reduce and increase allocations to the sector so as to provide an on average constant investment to the gold price.
- The Fund also has a small allocation to companies engaged in mining, exploration and production in the precious metals sector.
- The Fund targets a significant return in excess of its designated benchmark, the USD spot gold bullion price.

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WHY HINDE GOLD FUND?

Hinde Gold Fund exposes investors to upside appreciation in the precious metals sector while smoothing out any downside volatility.

ETFs track the gold price, with a cost. They are also a paper promise: there is no direct gold ownership. Other funds merely exaggerate the gold price, potentially losing investors more on the downside, and with higher return volatility.

Hinde Gold Fund aims to **significantly outperform the spot gold price each year, net of fees.**

Spot Gold	-25%	-15%	0%	+15%	+25%
Typical ETF	-25.4%	-15.4%	-0.4%	+14.6%	+24.6%
Typical Gold Equity Fund	-50%	-30%	0%	+30%	+50%
Hinde GF*	-10%	0%	+15%	+30%	+40%

(table is illustrative)
** Idealized returns for given return in gold.*
Actual return may deviate from this.

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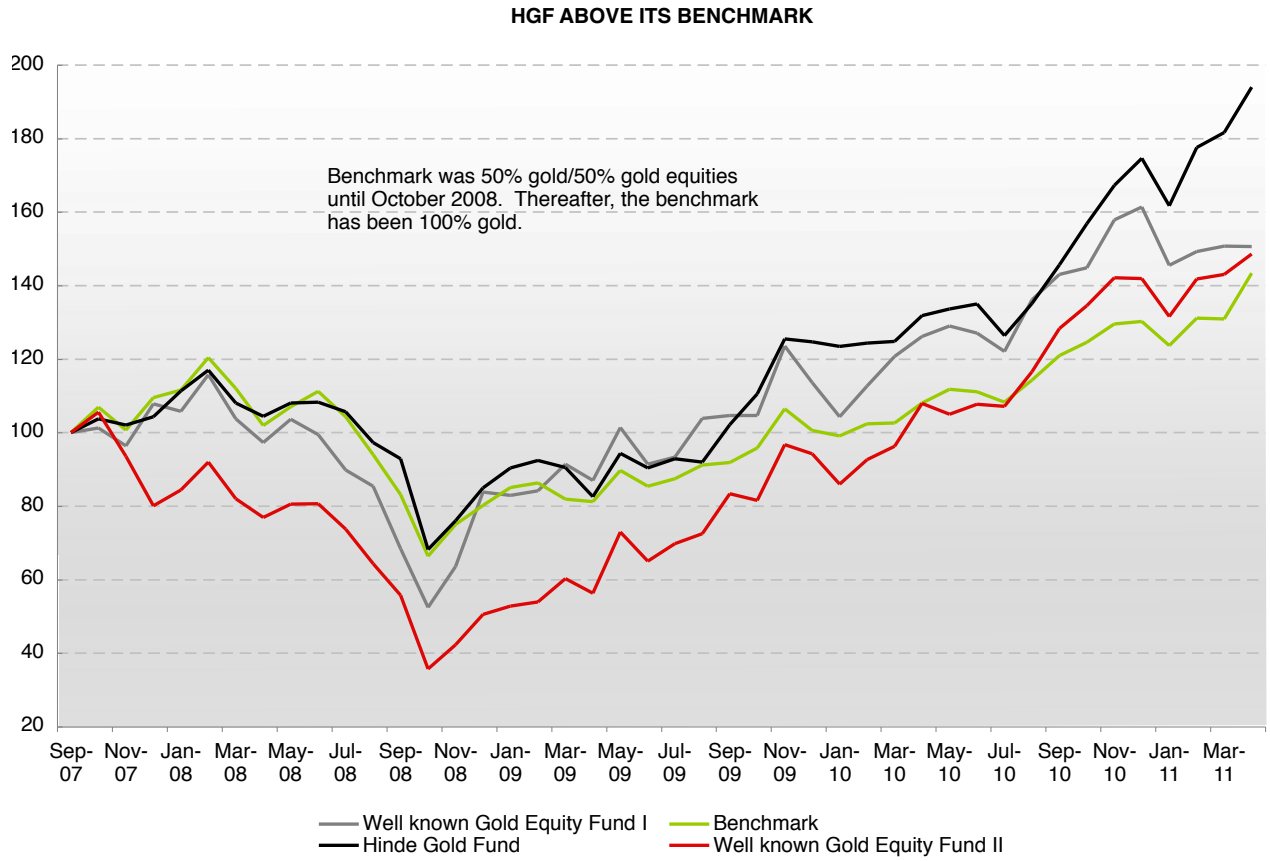
HINDE GOLD FUND ABOVE ITS BENCHMARK . . .

Hinde Gold Fund is outperforming its benchmark. The benchmark until October 2008 was 50% gold and 50% gold equities. From November 2008 onwards, the benchmark has been 100% gold. HGF is also solidly outperforming other gold funds.



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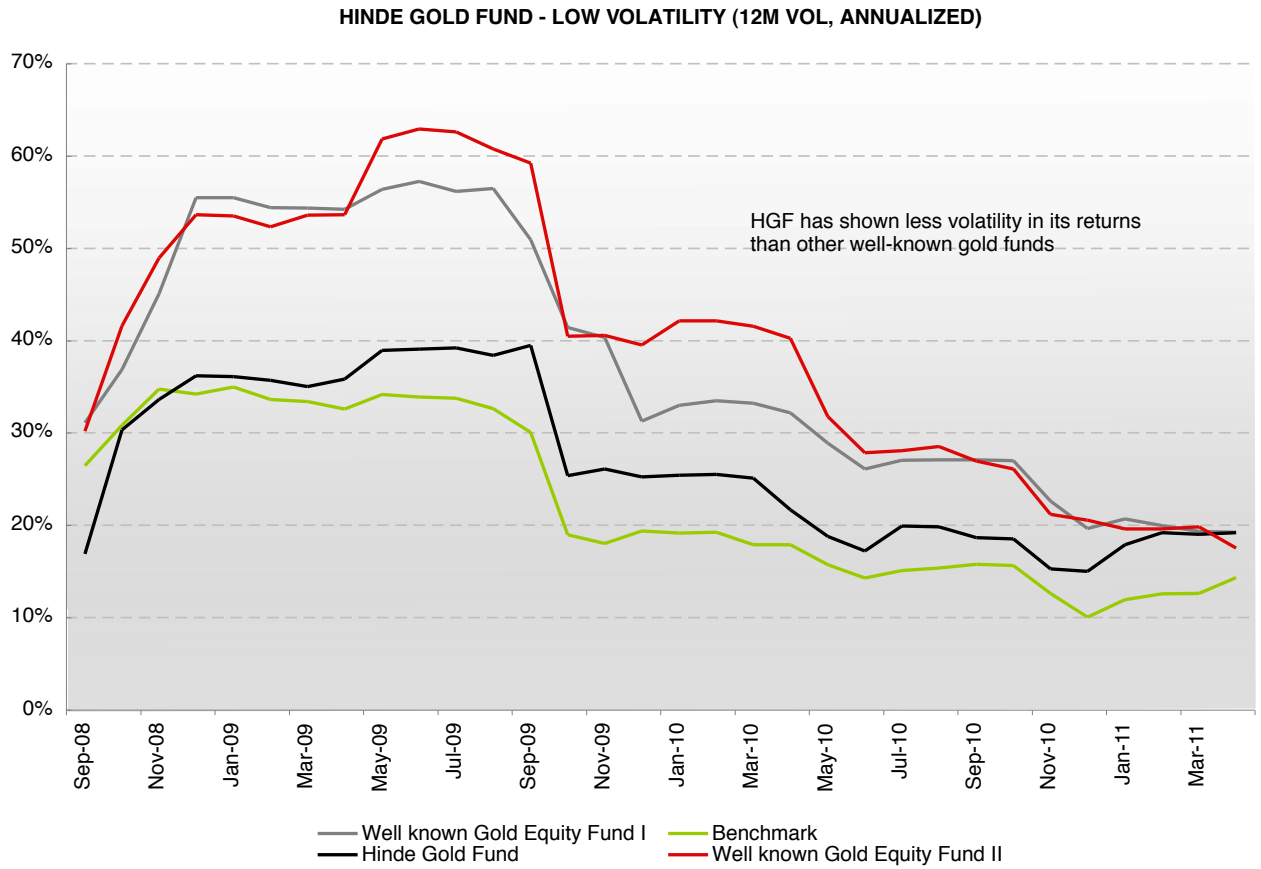
. . . AND WITH LOW VOLATILITY

Hinde Gold Fund's volatility has been very close to that of its benchmark.

Other funds have displayed considerably more volatility.



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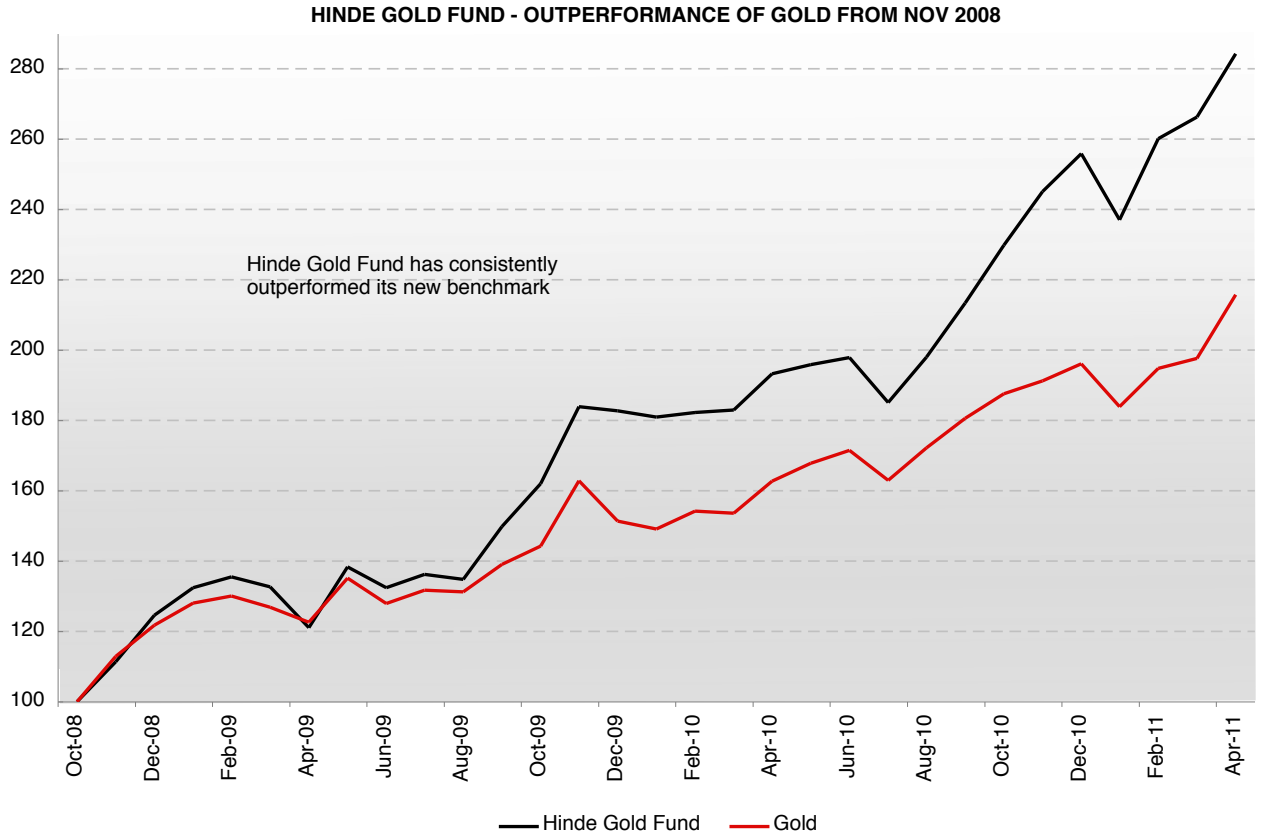
THE FUND HAS BEEN CONSISTENTLY OUTPACING GOLD

After the Fund changed benchmarks in November 2008 to 100% gold, it has consistently outperformed the gold price. Investors appreciate a managed gold position that outperforms rises in the gold price, and softens losses when the gold price falls.



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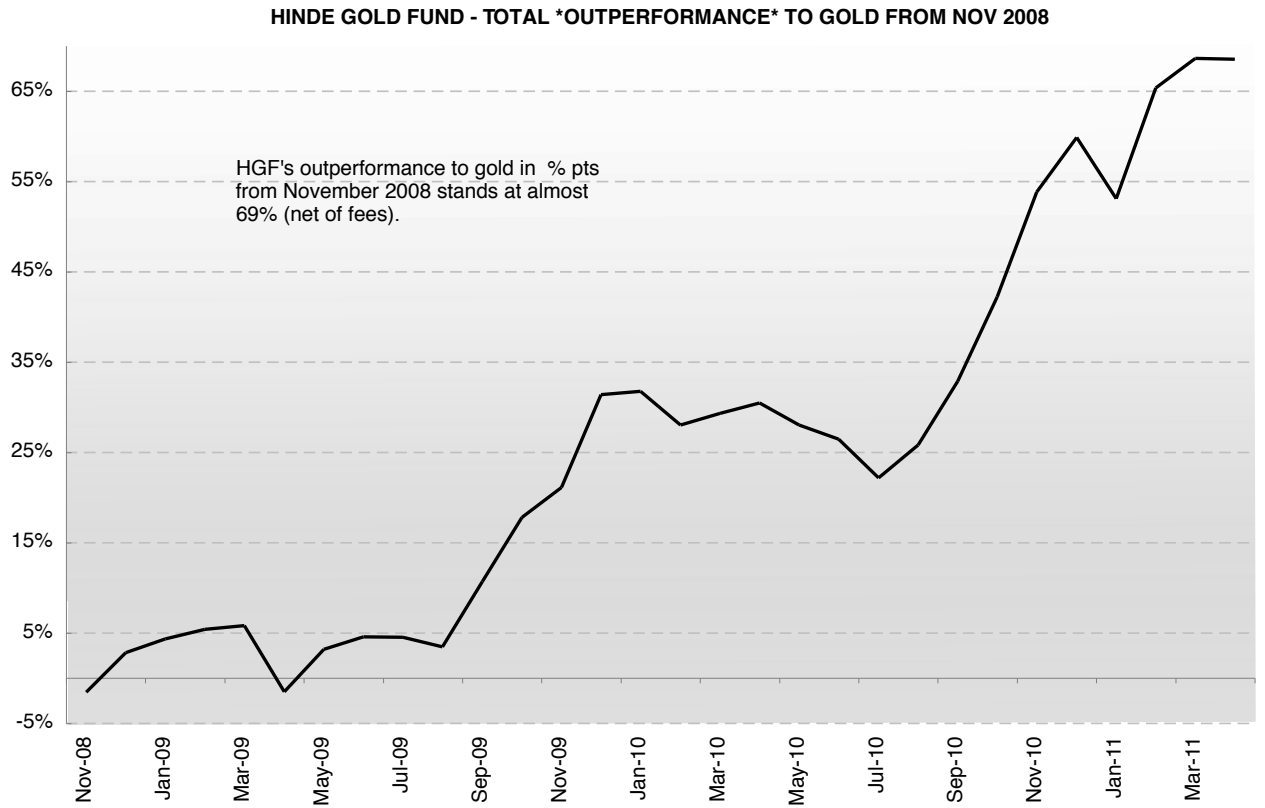
HGF NOW 69% AHEAD OF ITS BENCHMARK

From November 2008 (until April 2011), gold is up 115%, while HGF is up 184%.
This equates to an outperformance of 69% points, net of all fees.



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OUR GOLDEN SECRET TO SUCCESS: A BRILLIANT COMPUTER MODEL...



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HINDE CAPITAL MACRO CALLS – A SAMPLE

May 2010 Airtime: Wednesday, May 26 2010 | 10 07 00 ET
"Gold has reached record highs in recent weeks, but it will continue to go much higher in price', Ben Davies, CEO, Hinde Capital said."

"Ben Davies CEO Hinde Capital speaks to Bloomberg, 'the Fund reduced its holdings to 50% on concerns over Dubai's liabilities.'"
In the following month the market corrected over 10%.

King World News Broadcast – Hinde discusses the potential silver price explosion as outlined in the HindeSight August 2010 Letter: 'Silver Velocity – The Coming Silver Bullet'. Silver rallied 75% in the following months.


HindeSight
Part I: Pensions

To view all our macro research and media interviews please go to our website: www.hindecapital.com/reports, and the News section.

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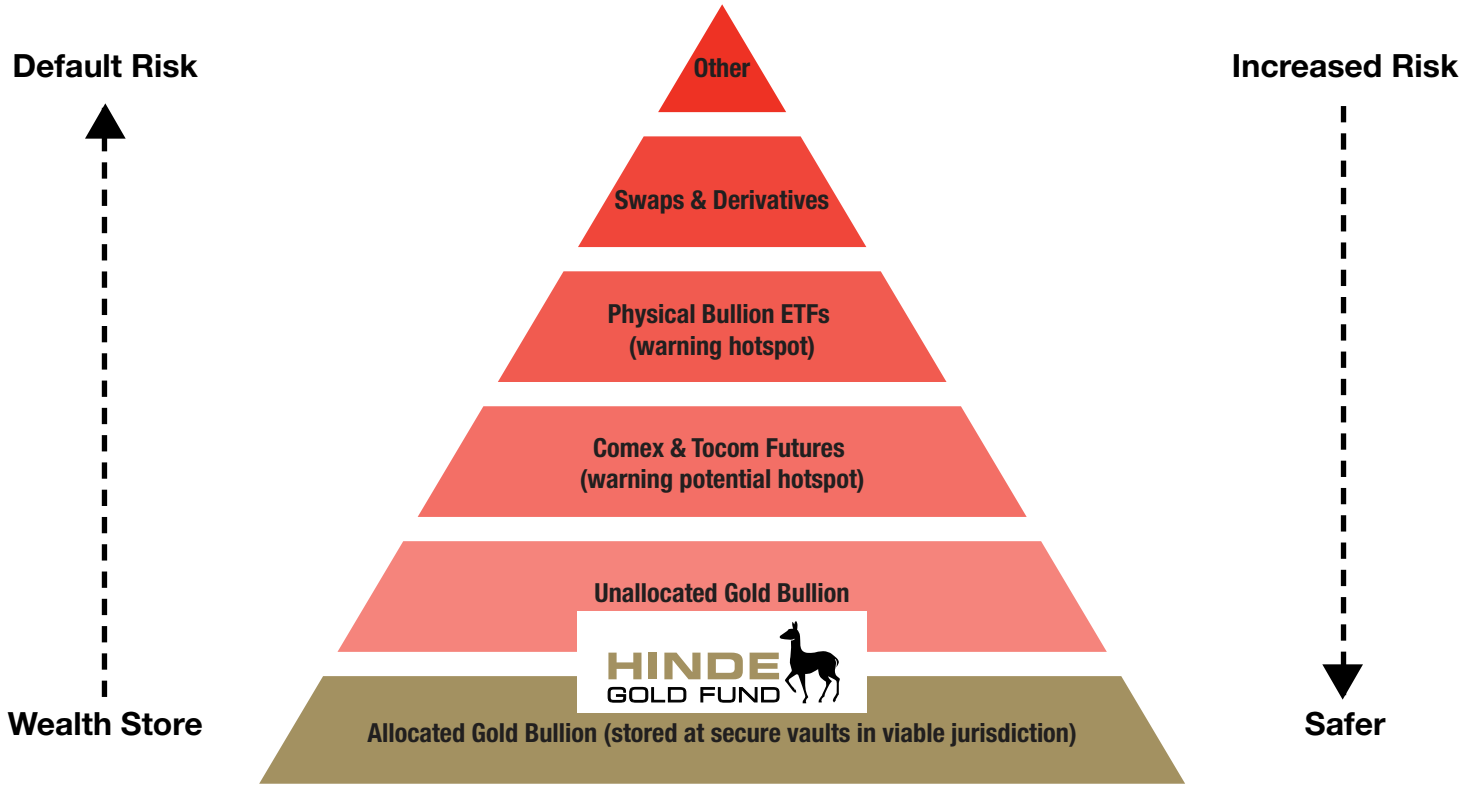
HINDE CAPITAL: A HIGHLY SECURE INVESTMENT

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.



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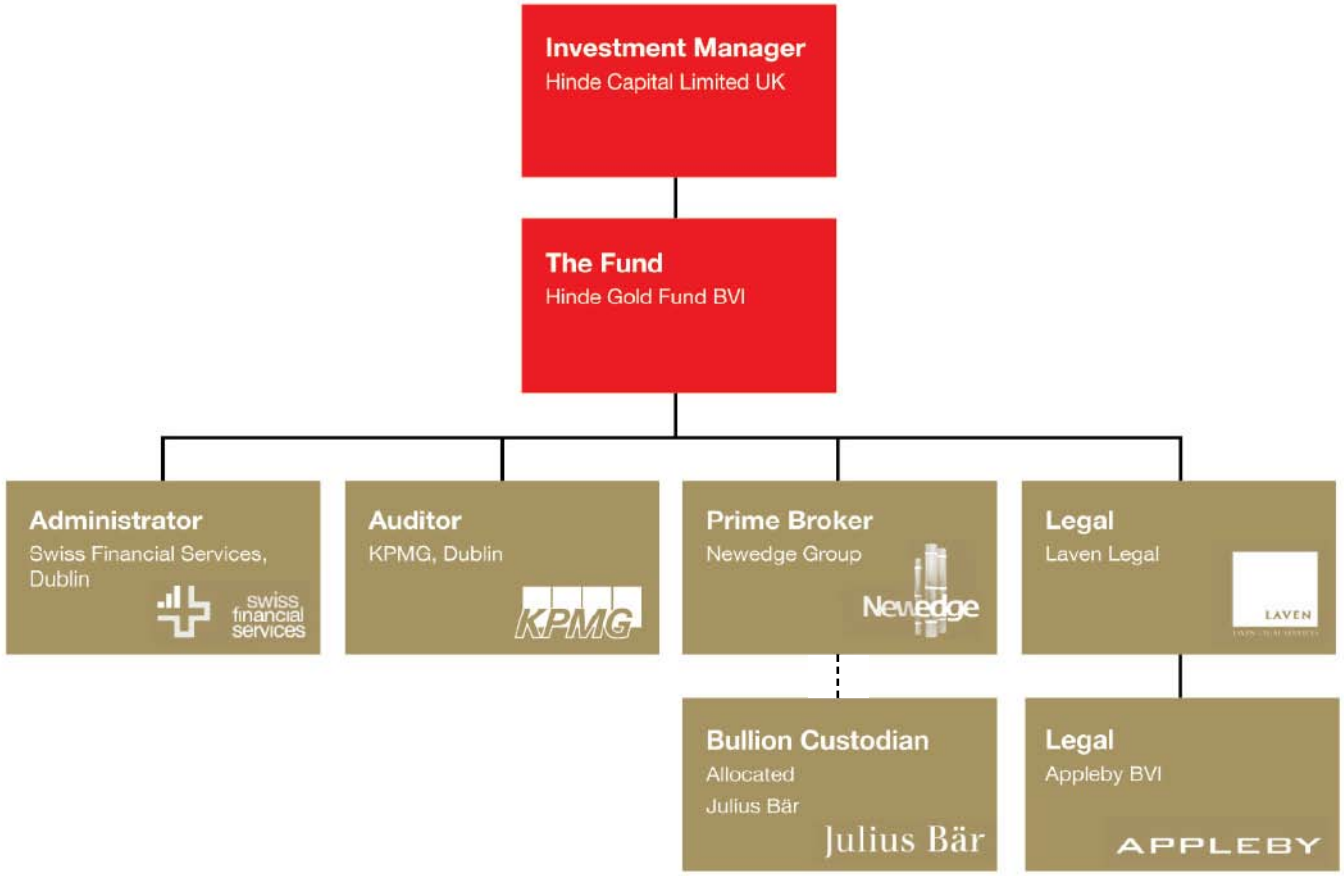
HINDE CAPITAL: ORGANIZATION

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



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HINDE CAPITAL: ESSENTIAL INFORMATION

INVESTMENT TERMS	
Minimum Investment	USD 100,000 (EUR,GBP equiv.)
Management Fee	1.50%
Performance Fee	20%
High Water Mark	Yes
Subscription Frequency	Monthly
Redemption Frequency	Monthly
Redemption Notice	21 Business Days
Lockup Period	None
Administrator	SFS
Auditor	KPMG
Prime Broker	Newedge Group
Custodian	Julius Baer
English Counsel	Lussan Ltd UK
BVI Counsel Appleby	BVI
Domicile	BVI

FUND IDENTIFIERS	
Bloomberg Ticker	HNDGOLD VI Equity
ISIN USD Class B	VGG4591A1075
CUSIP USD Class B	G4591A 107

CONTACT DETAILS

Ben Davies / Mark Mahaffey
info@hindecapital.com

Hinde Capital
10 New Street
London
EC2M 4TP

Tel +44(0)20 7648 4600
Fax +44(0)20 7238 1194
www.hindecapital.com

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HINDE CAPITAL: INVESTMENT MANAGERS

Ben Davies (CEO) and Mark Mahaffey (CFO), former colleagues from RBS Greenwich Capital, established Hinde Capital in early 2007, primarily to focus on the precious metals and commodity sector. Hinde Gold Fund, BVI Ltd, was launched in October 2007. The Fund is now into its fourth year.

Ben Davies has over 17 years experience within financial and commodity markets, starting his career in 1994 trading credit fixed-income at Credit Lyonnais. In 1999 Ben moved to Greenwich Capital in London where he traded multi-asset classes. He left Greenwich in 2001 following the merger with RBS and took a position as a portfolio manager for Blue Sky Capital Australia, a Japan equity hedge fund. In 2002 he returned to Greenwich Capital to take up the position as Head of Fixed Income and Macro Proprietary Trading. In 2007 Ben co-founded Hinde Capital with Mark Mahaffey to focus on the precious metals and commodities sectors. Hinde Gold Fund has proven itself to be an exemplary performer in the precious metals sector.

Mark Mahaffey has 26 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. In 2007 Mark left BoA to set up Hinde Capital.

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HINDE CAPITAL: KEY PERSONNEL

Jonathan Tepper started his career as generalist equity analyst at SAC Capital in Stamford, Connecticut concentrating on special situations: recapitalizations, spinoffs, and restructurings. After working alongside Mark Mahaffey at Bank of America he has worked at various funds intensifying his research into the resource sector as both a macro and mining analyst. He is a Rhodes Scholar with an M.Litt. in modern history from Oxford University. He graduated with highest honours in history and economics from the University of North Carolina at Chapel Hill in 1998.

Simon White is a University of Cambridge mathematics graduate with a background in interest rate and proprietary trading. After graduation Simon joined JPMorgan on the USD Rates desk, followed by a position at Bank of America as a proprietary trader, where he worked with both Mark Mahaffey and Jonathan Tepper. After a position at a start-up macro hedge fund, he joined Hinde Capital in October 2008.

Paul Burton is Managing Director and partner of GFMS World Gold Analyst. Paul was formerly editor of the World Gold Analyst, a position he held for over eleven years. In August 2002, Paul completed a management buyout of World Gold Analyst from the Mining Communications Ltd. Before joining the Mining Journal in 1996, Paul spent over twenty years in various positions within the mining industry. After initially working as a mining engineer he spent much of his career in mineral economics, most notably at Gold Fields, and minerals marketing in South Africa.

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