DEBT: THERE IS NO JUBILEE

HINDE CAPITAL

DEBT: THERE IS NO JUBILEE

The world has too much debt.

In the book of Leviticus (Old Testament), a Jubilee year is mentioned to occur every fifty years, in which slaves and prisoners would be freed, debts would be forgiven.

Today there is no Jubilee.

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DELEVERAGING: GROWTH, AUSTERITY, DEVALUATION OR DEFAULT

"Capitalism without failure is like religion without sin."

Charles Kindleberger, Manias, Panics and Crashes

How do you get rid of debt without Jubilee?

Deleveraging:

1. Grow your way out: US post WW2, Japan post 1989

2. "Belt-tightening": Scandinavia 1990s, S Korea, Malaysia post 1997

3. Currency devaluation: US 1934 Gold Reserve Act, UK 1949, 1967, (2008?)

4. Explicit default: Russia 1998, Argentina 2002 - 08

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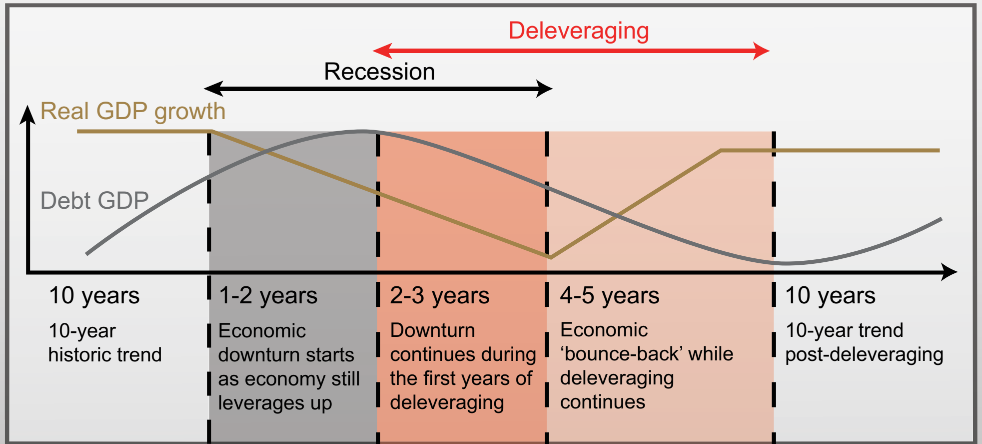
DEBT SUPERCYCLE ENDS: NO NORMAL DELEVERAGING

DELEVERAGING PROCESS



Average annual real GDP growth, %	10 years	1-2 years	2-3 years	4-5 years	10 years
1 Belt-tightening n=16	4.7	0.6	-0.6	4.8	3.2
2 High Inflation n=8	4.3	-1.7	-1.4	4.1	4.2
3 Massive Default n=7	4.3	-1.8	-3.0	5.7	4.8
4 Growing out of debt n=1	7.9	0.8	12.8[1]		2.3
Total n=32	4.6	-0.5	-1.3	5.1	3.8

1 Deleveraging driven by off-trend growth is not linked to a recession.

Source: International Monetary Fund; McKinsey Global Institute analysis

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GLOBAL DEBT REDUCTION: WHAT YOU SHOULD DO?

1. Slash expenditure on entitlements

2. Reduce marginal tax rates on income and corporate profits to stimulate growth

3. Raise taxes on consumption to reduce deficits

4. Deliver by writing down liabilities in line with fall in asset prices

5. Structural reform – law and taxation changes

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GLOBAL DEBT REDUCTION: WHAT ACTUALLY HAPPENS

Financial Oppression:

1. Oblige (enforce) commercial banks to hold government debt and condemn bond investors to negative real interest rates

2. Central banks cut interest rates beyond “market” rate

3. Explicit default on debt commitments to politically weak groups or foreign creditors

4. Implicit default – inflate vis a vis quantitative easing and currency devaluation

5. Revalue risk assets higher vis a vis qualitative easing eg UK Asset Purchase Program

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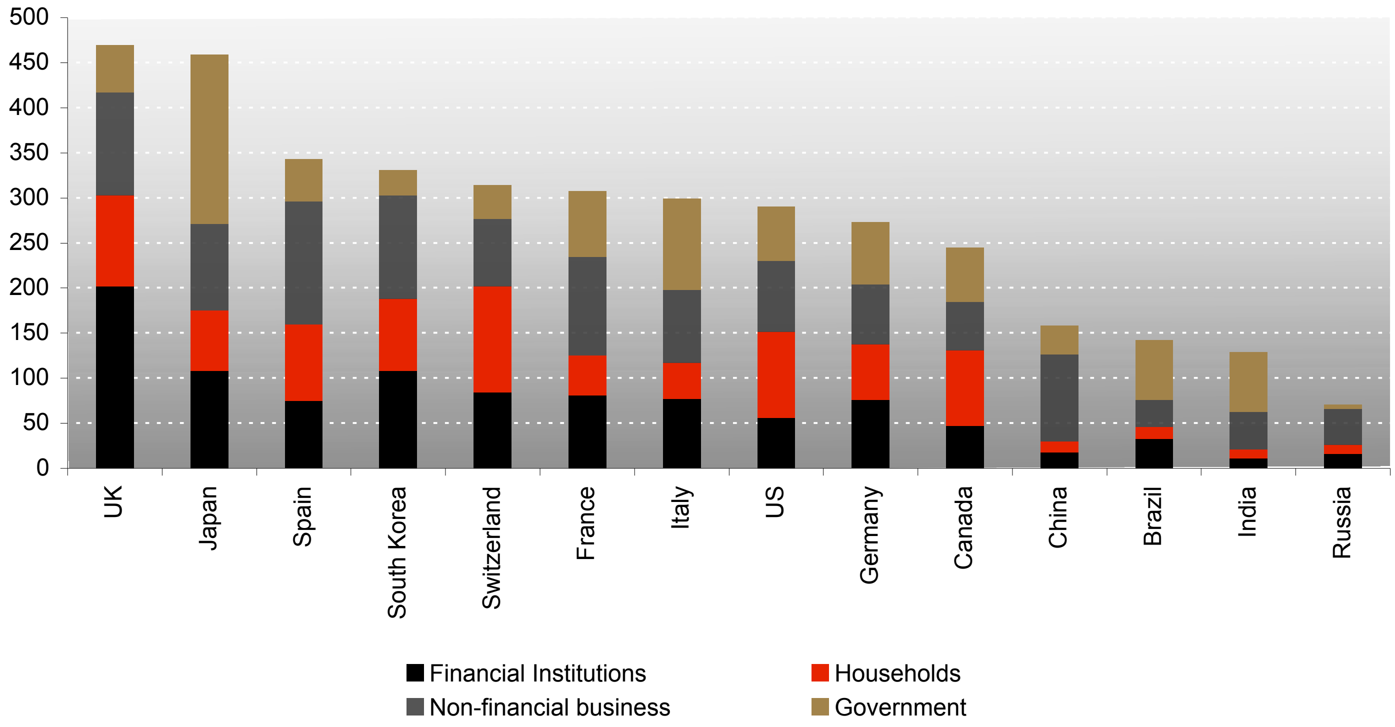
EXCESSIVE DEBT THAT CANNOT BE REPAID IN FULL

Most developed countries had debt levels going into the Great Financial Crisis far beyond their means to service them.

DEBT BY COUNTRY 2008 % OF GDP



Source: McKinsey Global Institute

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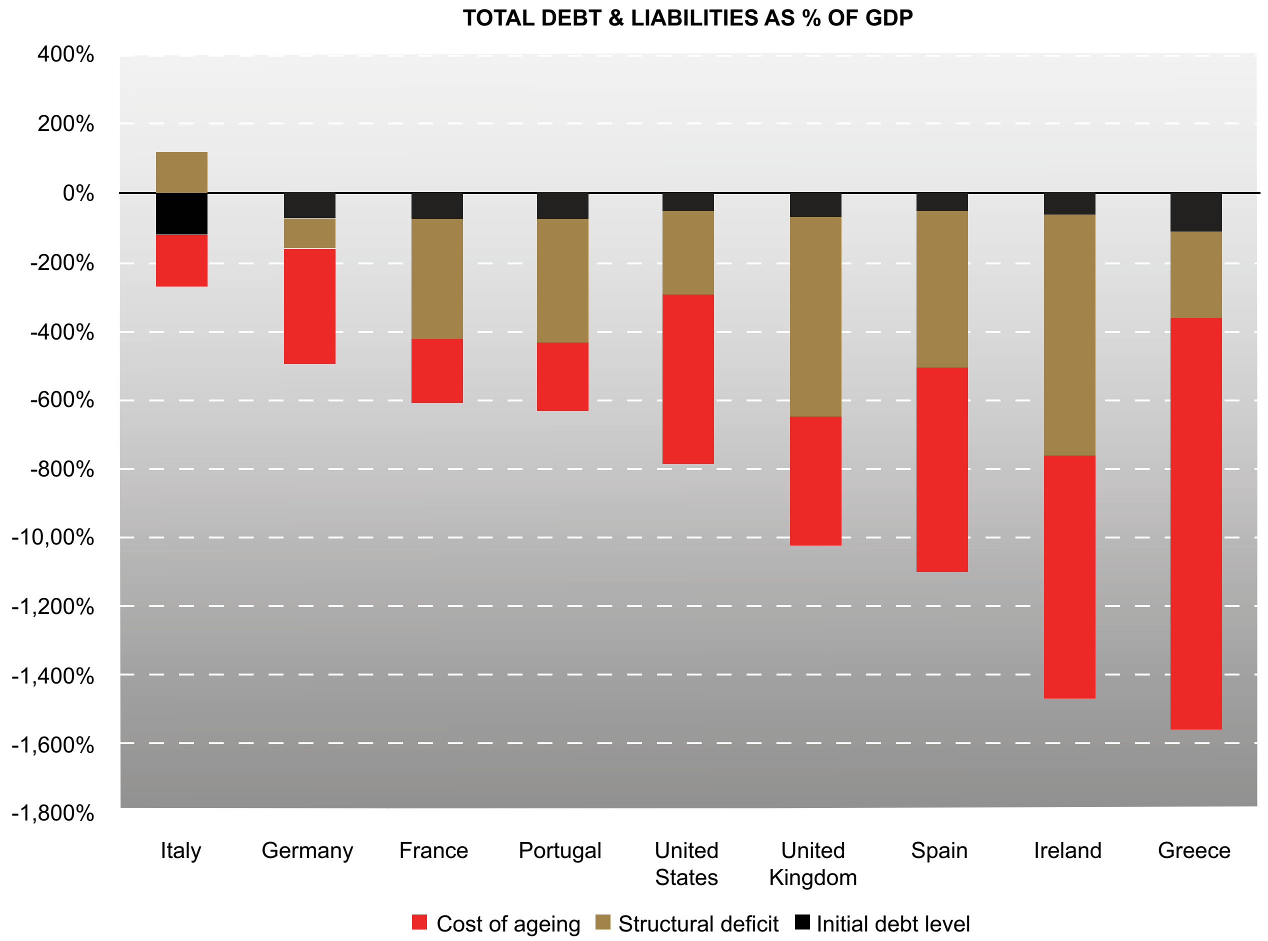
PENSIONS: OFF BALANCE SHEET LIABILITIES

Real situation is much worse than perceived. Pension liabilities will explode public sector debt levels. Politically, cutting pensions is intolerable.



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

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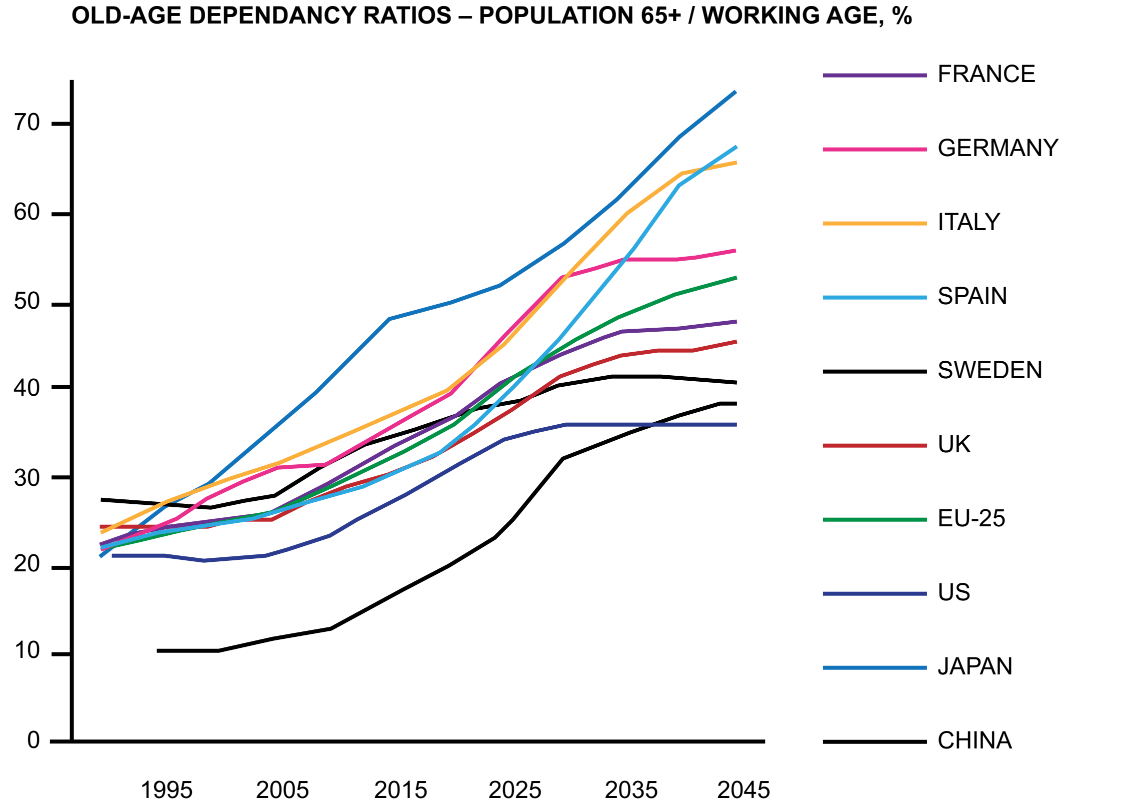
AGEING SOCIETY: FEWER TAXPAYERS, MORE PENSIONERS

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



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

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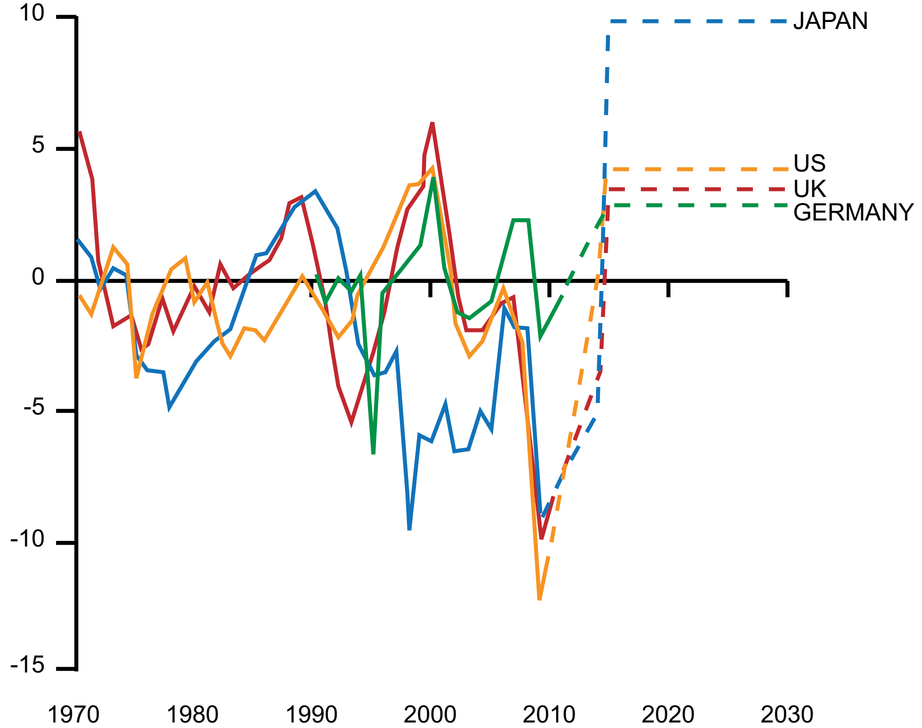
GOVERNMENTS WILL BE UNABLE TO REDUCE DEBT LEVELS

Long term stable level of govt debt to GDP approx. 60%, the aging population negates likelihood of this target by 2030: Govts need to run a consistent primary surplus (ex-ante interest) of > 4%, ie achieving a run of 15 yrs at best surplus years ever to meet target.

PRIMARY BALANCE REQUIRED TO STABILIZE DEBT/GDP AT 60% BY 2030



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

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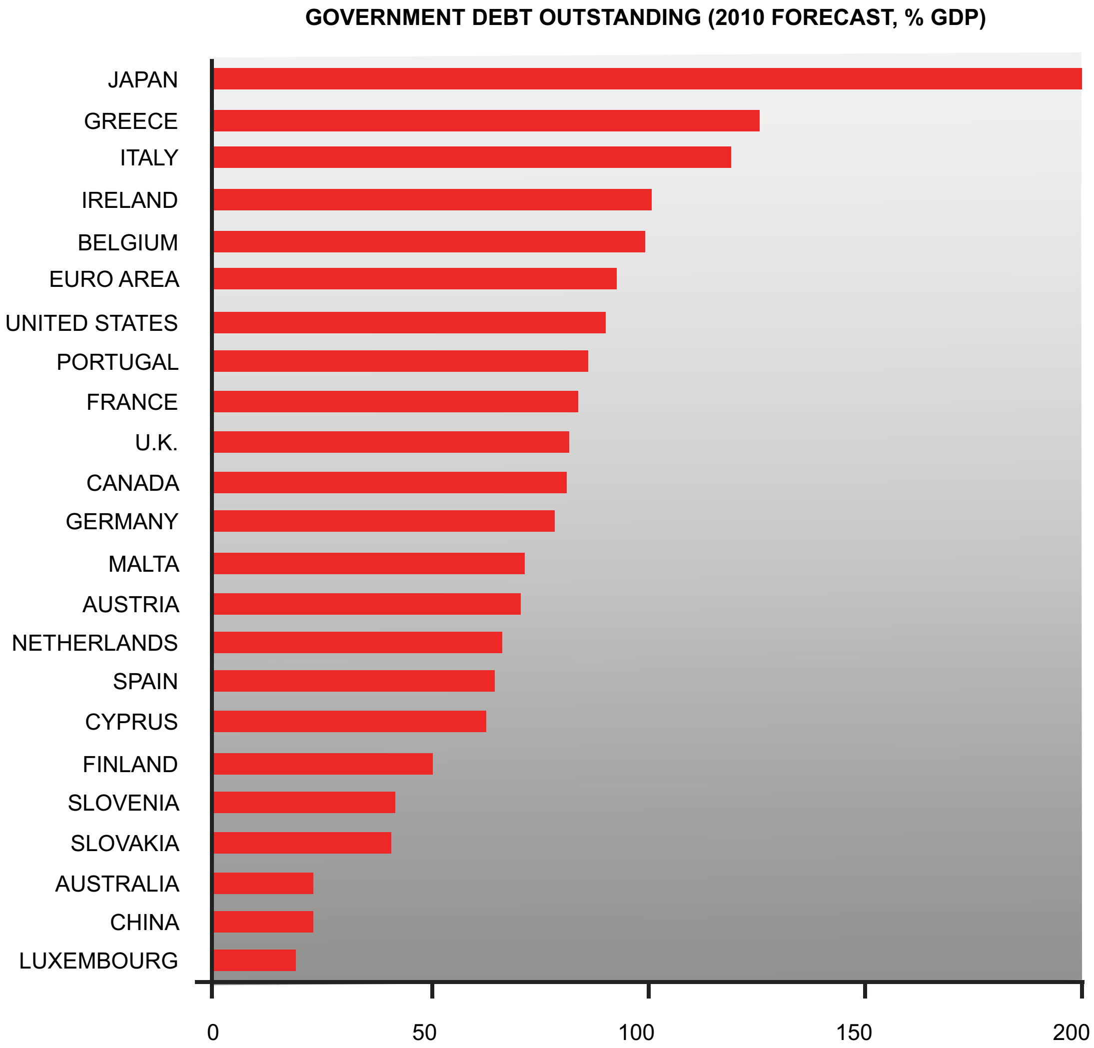
SOVEREIGN DEBT: CROWDING OUT

All countries are trying to borrow at the same time.



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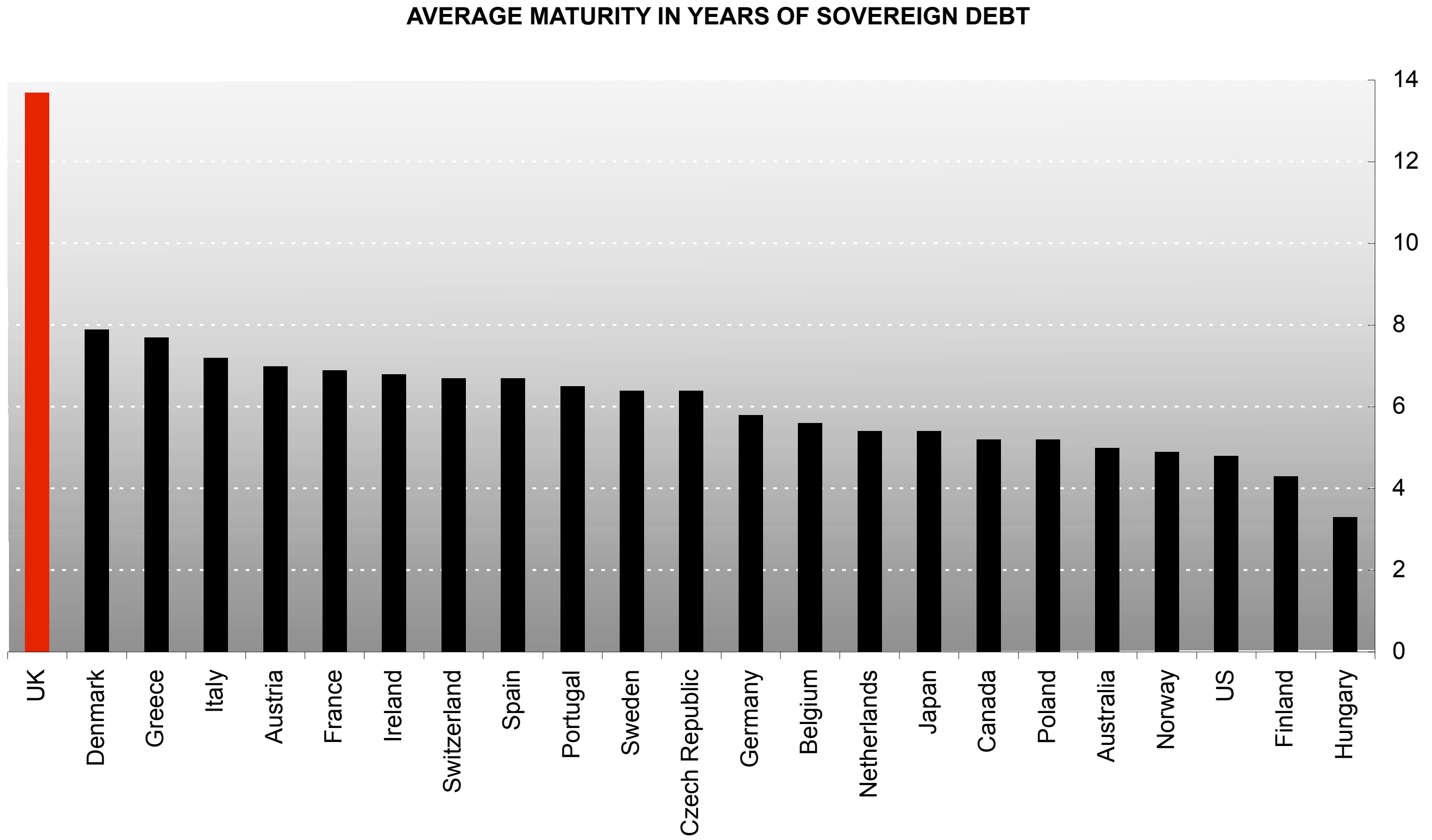
SOVEREIGN DEBT ROLLOVER RISK

Most countries have very low average maturity levels, exposing them to rollover risk.
Any increase in interest rates will raise borrowing costs.



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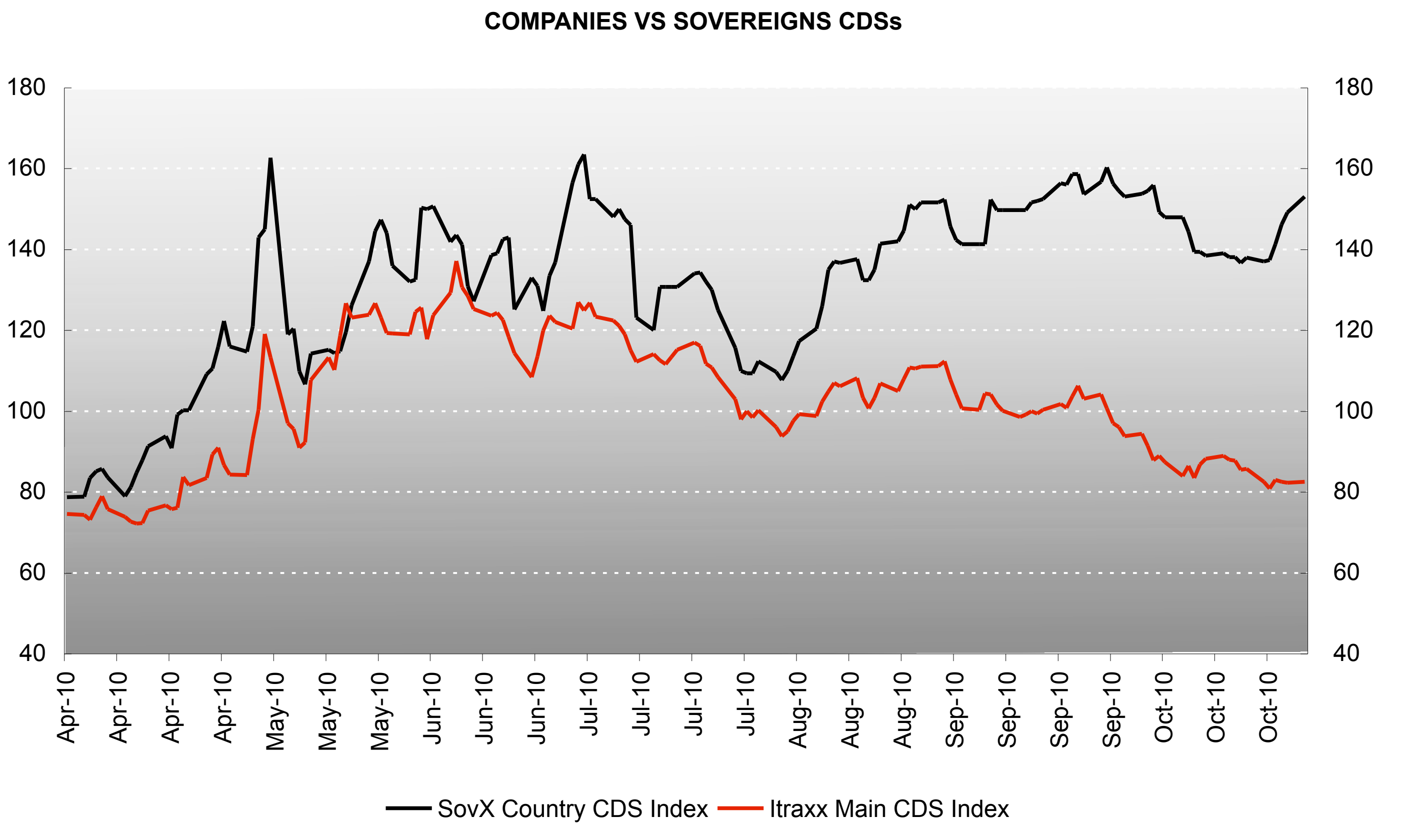
THE MARKET KNOWS THE GAME IS OVER

Governments are now held in such low regard by investors that in many countries corporate bonds trade at tighter spreads than their parent sovereigns. Corporate CDSs are tighter than sovereign CDSs.



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WHEN DOES THE GAME END?

Either you cannot service your debt or your lenders lose confidence in your ability to service it at a particular rate.

Excessive interest payments – Coupon payments too high to be serviced

Excessive reliance on foreign capital – Foreigners tire of lending to you

Governments will indulge in deficit financing

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UK: A CASE STUDY IN HOW TO REDUCE YOUR DEBT

“Major” King: How I learned to Stop Worrying and Love Inflation

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UK: POSTER BOY OF THE CREDIT CRISIS

*"As I have said before Mr Deputy Speaker:
No return to boom and bust"*

UK Chancellor, Gordon Brown 1997 and 2006

Extended business cycle caused by rates too low too long.

Stability breeds instability.

Rising house prices masked household debt to asset ratio reality.

Housing 'ATM' and cheap money enabled unprecedented consumption boom.

Government nominal spending doubled (1997- 2010). Govt. spending is 45% of GDP.

Government did not reign in unfunded liabilities as life expectancy extended beyond retirement age.

PEOPLE BELIEVED THEIR OWN BULLSH*T.

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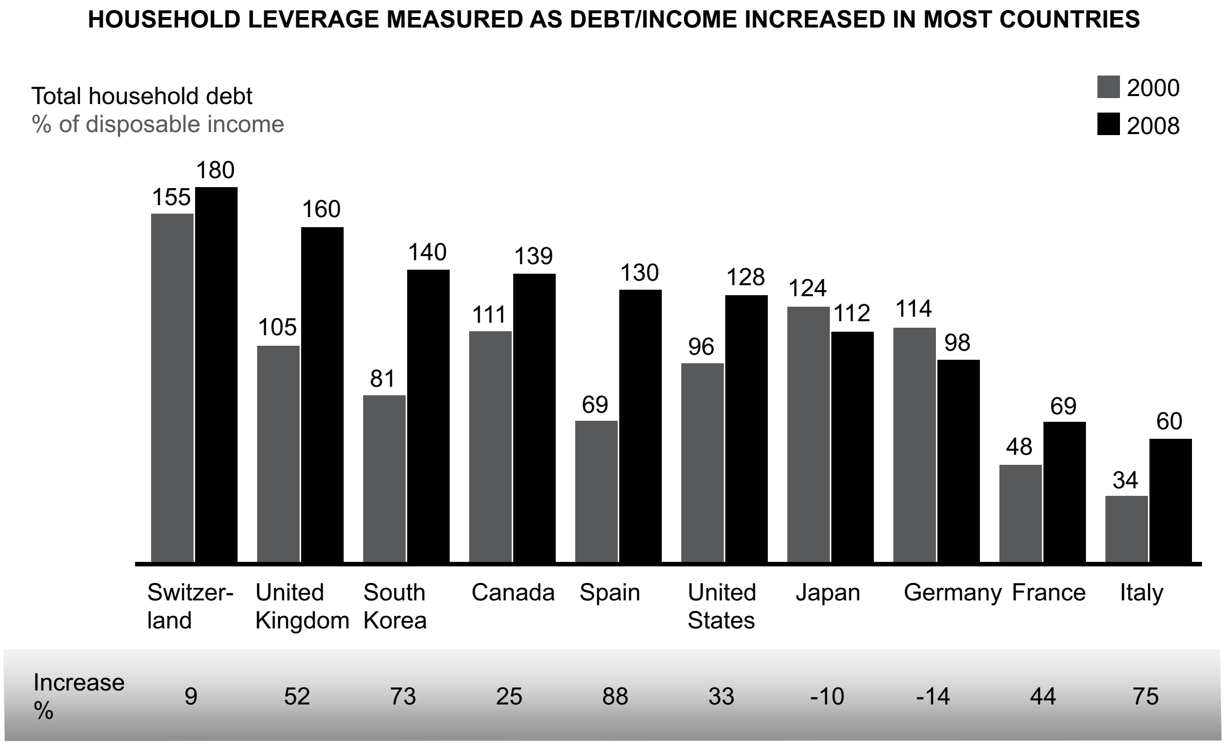
UK HOUSEHOLD LEVERAGE WAS ON A HIGH

Household leverage measured by debt relative to disposable income illustrates the obscenely large increases that took place from 2000 to 2008



Canada includes non corporate business, which exagerates its relative size compared to other countries

Source: Hever Analytics; McKinsey Global Institute

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UK: NICE DECADE TURNS NASTY

"Who would be prepared to lend with the fear of being repaid in depreciated currencies always before his eyes?"

Georges Bonnet, the French foreign minister of the 1930s

NICE (Non-inflationary consistent expansion) turned nasty 2008

UK household debt as % of disposable income 160%; at worst US was 130%

UK overall debt is nearly 5 x GDP; excluding unfunded liabilities,

£10 trillion debt incl. unfunded liabilities, or £170,000 for every man woman and child

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UK GOVERNMENT, WHEN IN DOUBT SPEND

£671bn Total Government spending in the financial year 2009-2010

Govt support for Britain's Banks £850 bn + £100 mm on financial advice

£280bn Insurance cover for bank assets

£250bn guaranteeing of wholesale borrowing by banks

£200bn indemnification of BoE against losses for liquidity support

£76bn purchase of RBS shares

£40bn loans and funding to Building Society and Financial Compensation Scheme

Source: National Audit Office

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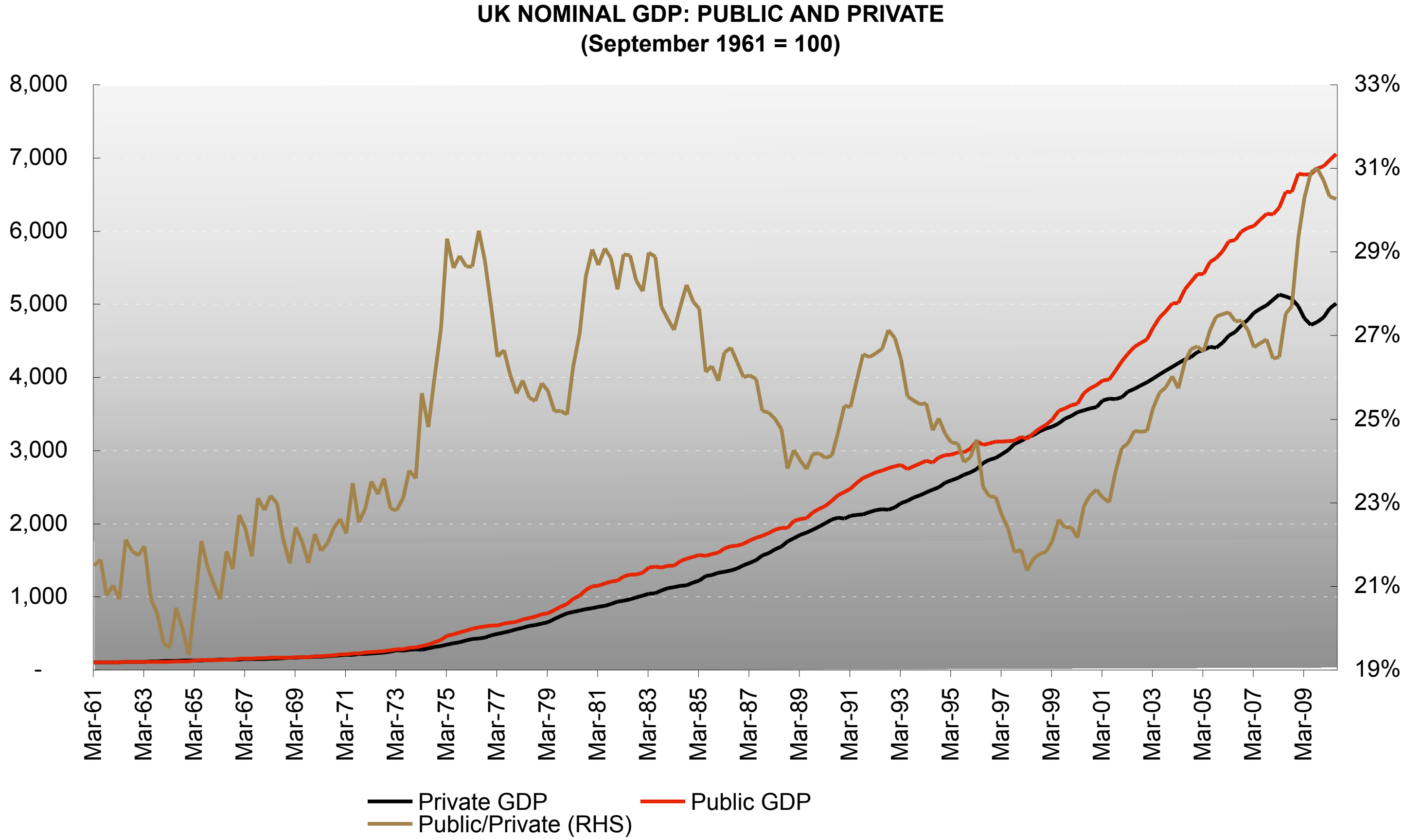
MOST GROWTH IN THE UK GDP IS COMING FROM GOVERNMENT

Public sector is plugging the gap emanating from an ongoing deleveraging private sector. Governments effectively socialised private sector losses.



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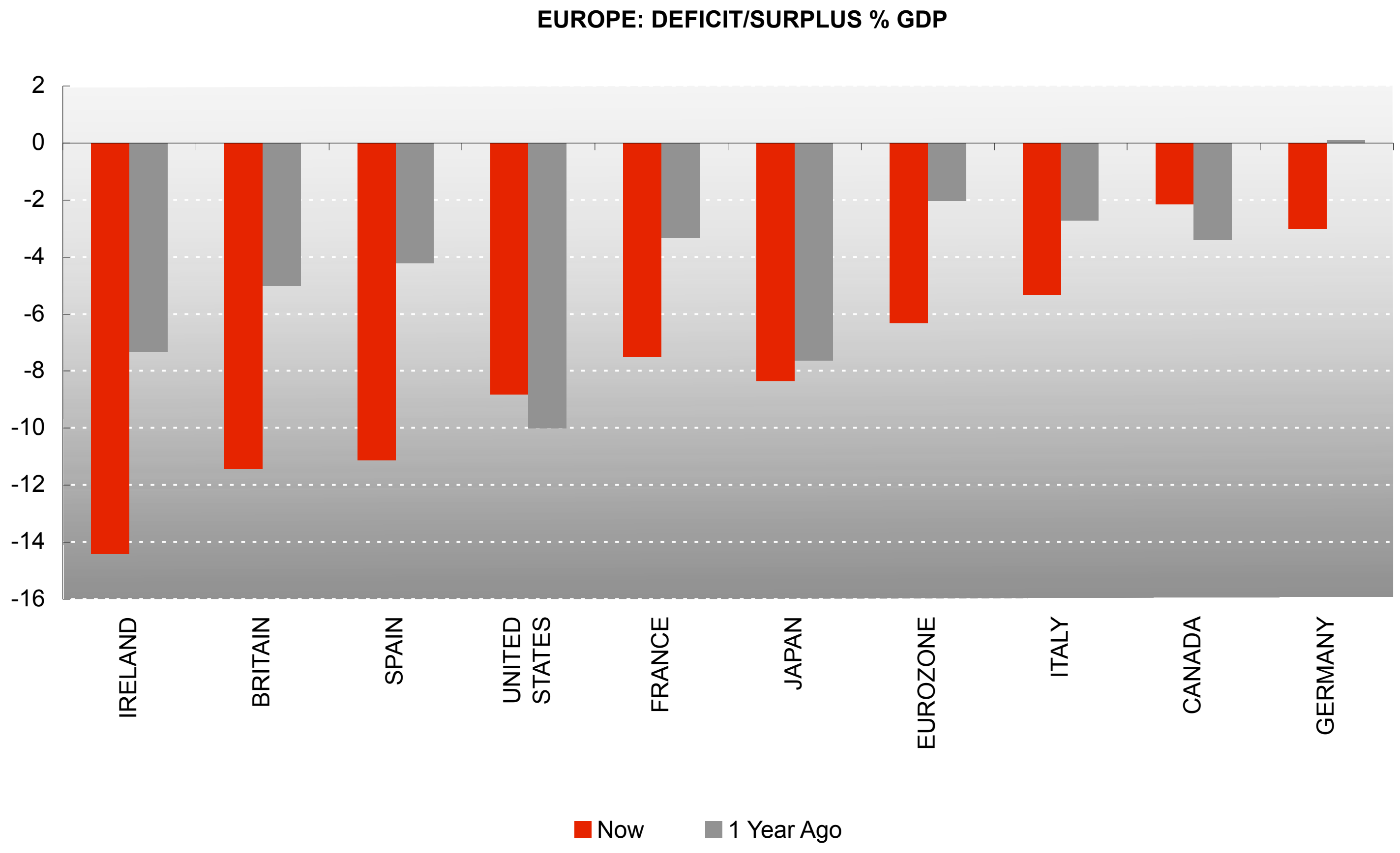
UK FISCAL BALANCE: THE DEFICIT DOES MATTER

“Major” King says UK faces a SOBER decade: Savings, Orderly Budgets, and Equitable Re-balancing



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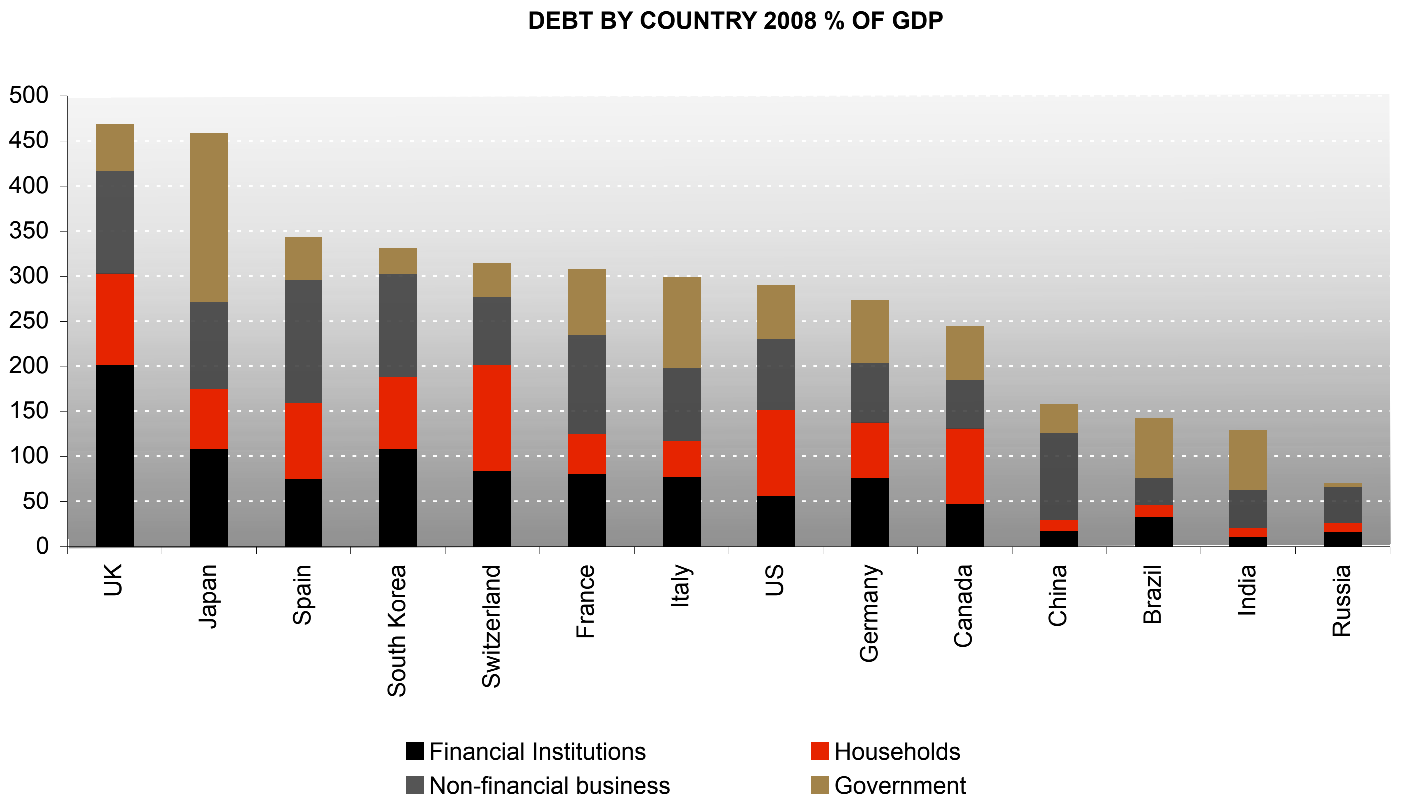
UK BIGGEST OVERALL DEBT IN G20

The UK has a debt problem much worse than the US's. We are the most leveraged country in the world per capita.



Source: McKinsey Global Institute

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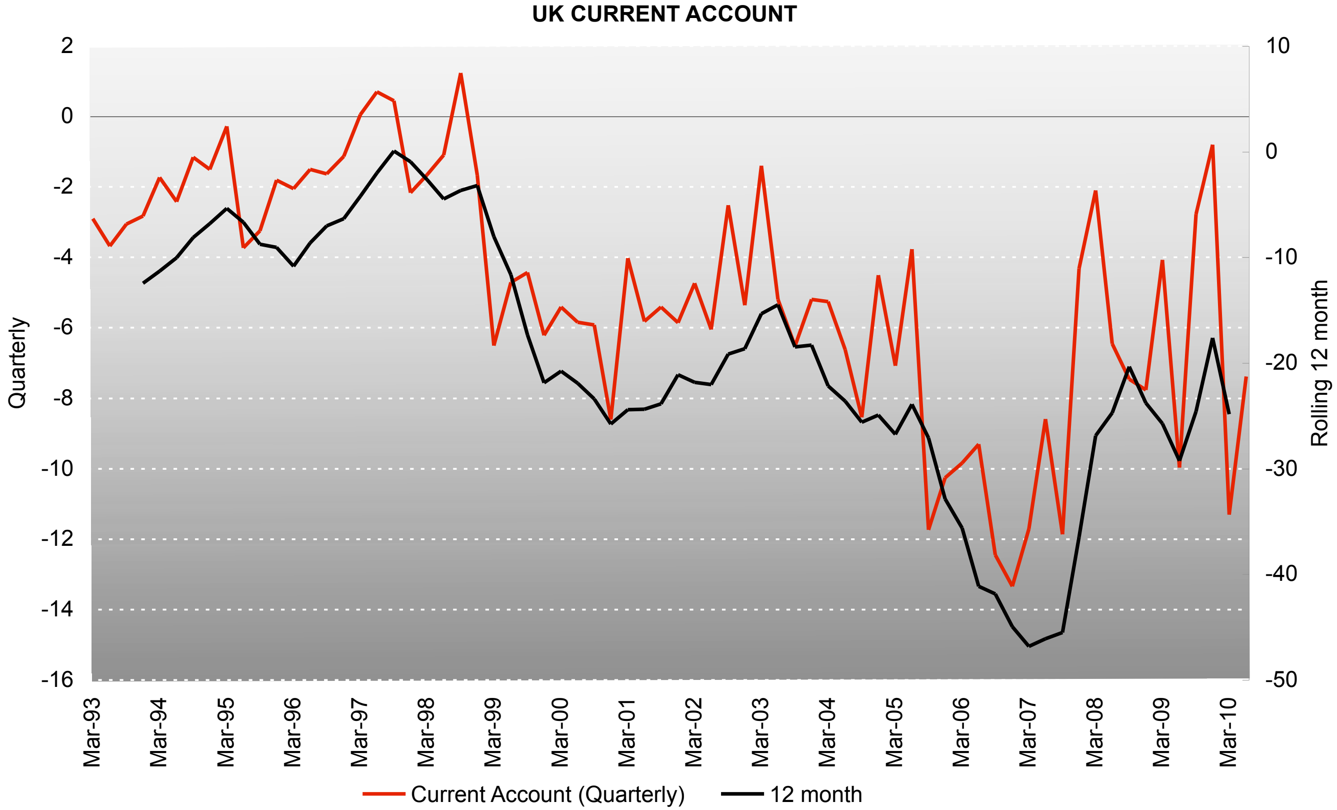
UK CURRENT ACCOUNT:
CAN THINGS ONLY GET BETTER?

Domestic Private Sector Financial Balance + Govt Fiscal Balance – Current Acct Balance = 0

"The underlying principle flows from the financial balance approach: the domestic private sector and the government sector cannot both deleverage at the same time unless a trade surplus can be achieved and sustained. Yet the whole world cannot run a trade surplus."

Rob Parenteau (2010)

But the UK will have a damn good go at exporting its way to growth.



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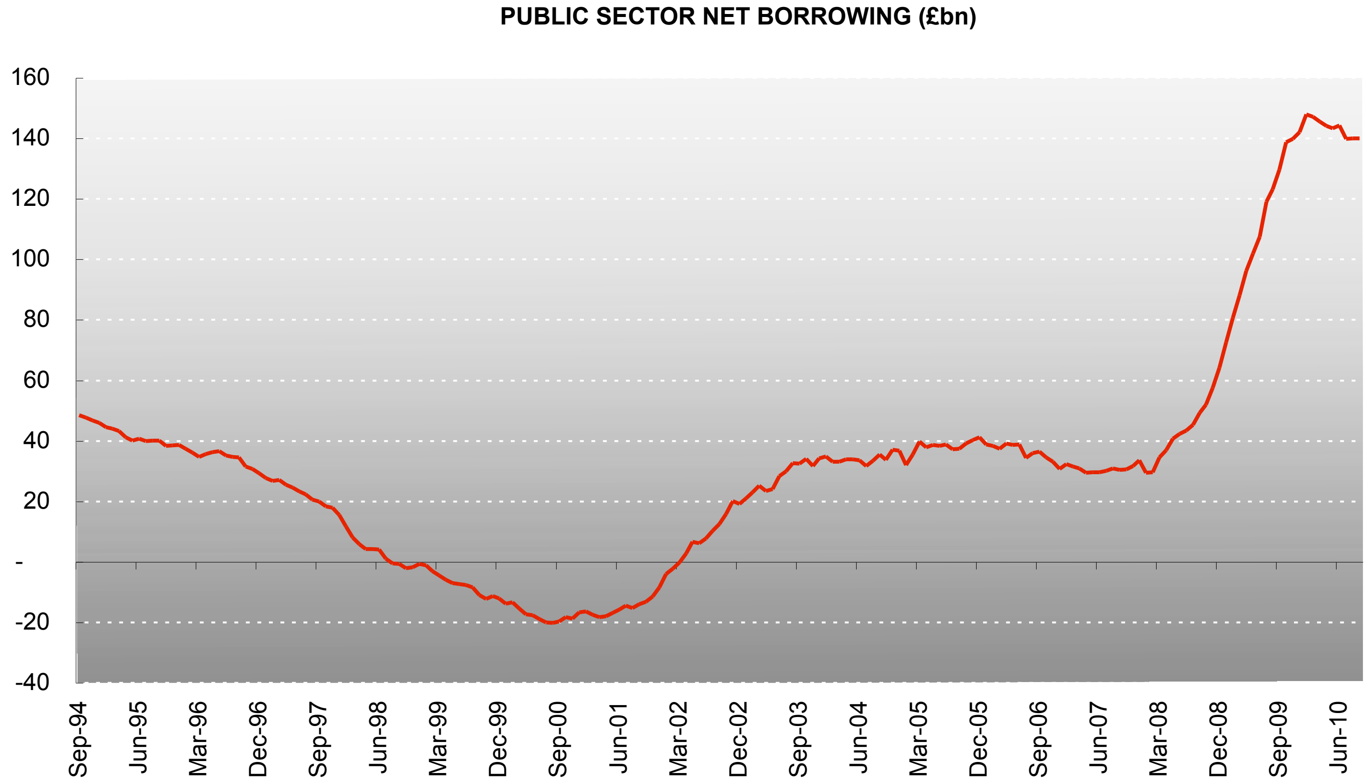
GILTY PLEASURES: PSNBR EXPLODES

After bailing out banks government borrowing is still rising. PSNBR is £140bn on a twelve month rolling basis. This is a rise by almost a factor of 4 from 12 months ago.



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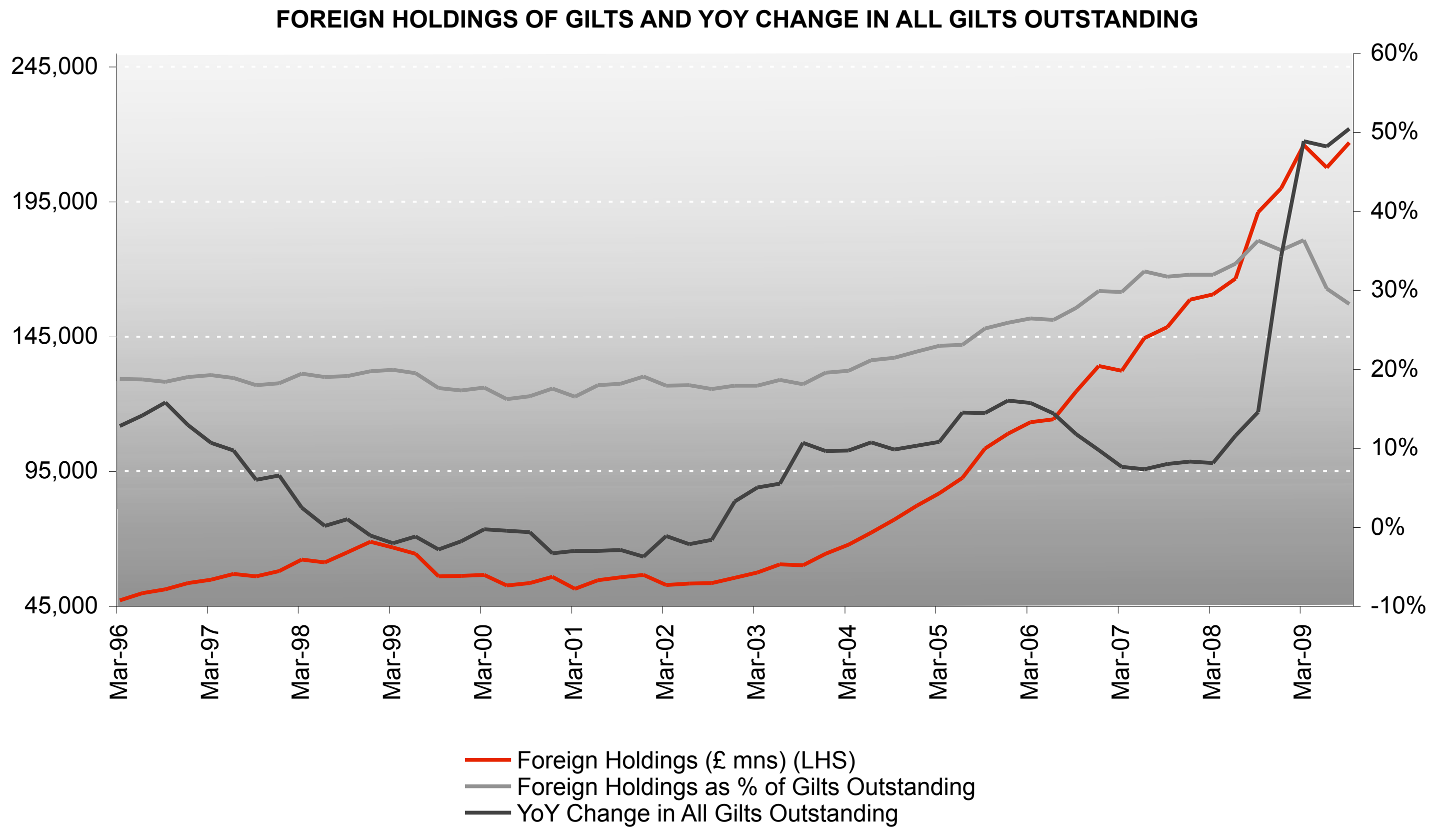
BOE: PLUGGING THE HOLE

There is not enough foreign demand for the amount of gilts issued. Sterling is not a reserve currency. No one needs to own £ denominated bonds.



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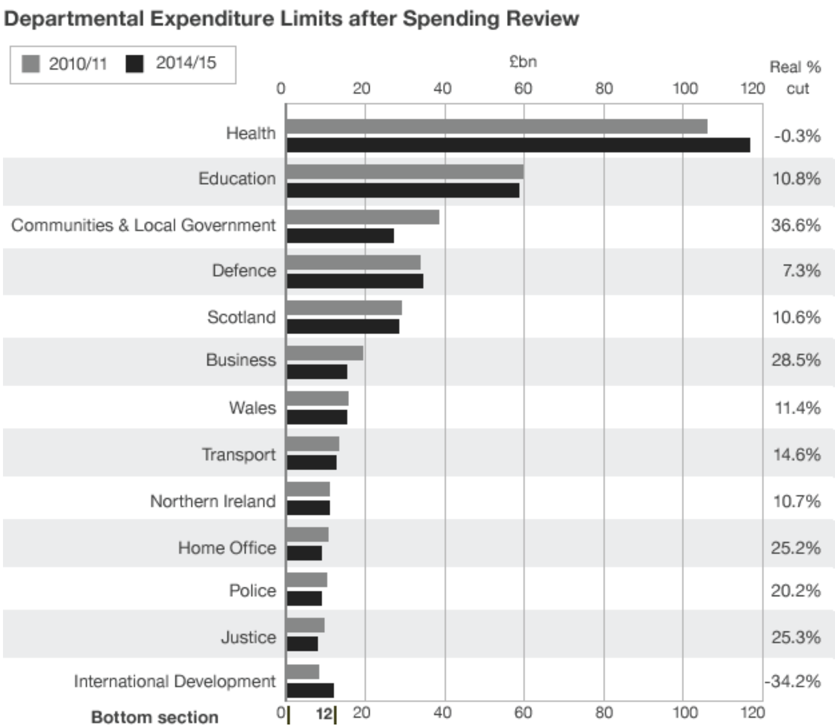
"REAL" SPENDING CUTS: WHEN LESS IS NOT MORE

Nominal Spending will not reduce over projected horizon of 2014/15, as Treasury/OBR will not maintain spending in line with inflation. Inflation assumptions used are 3.2 to 4.2% not the BoE target rate of 2%. And there you have the INFLATIONARY dynamic!



Source: The BBC

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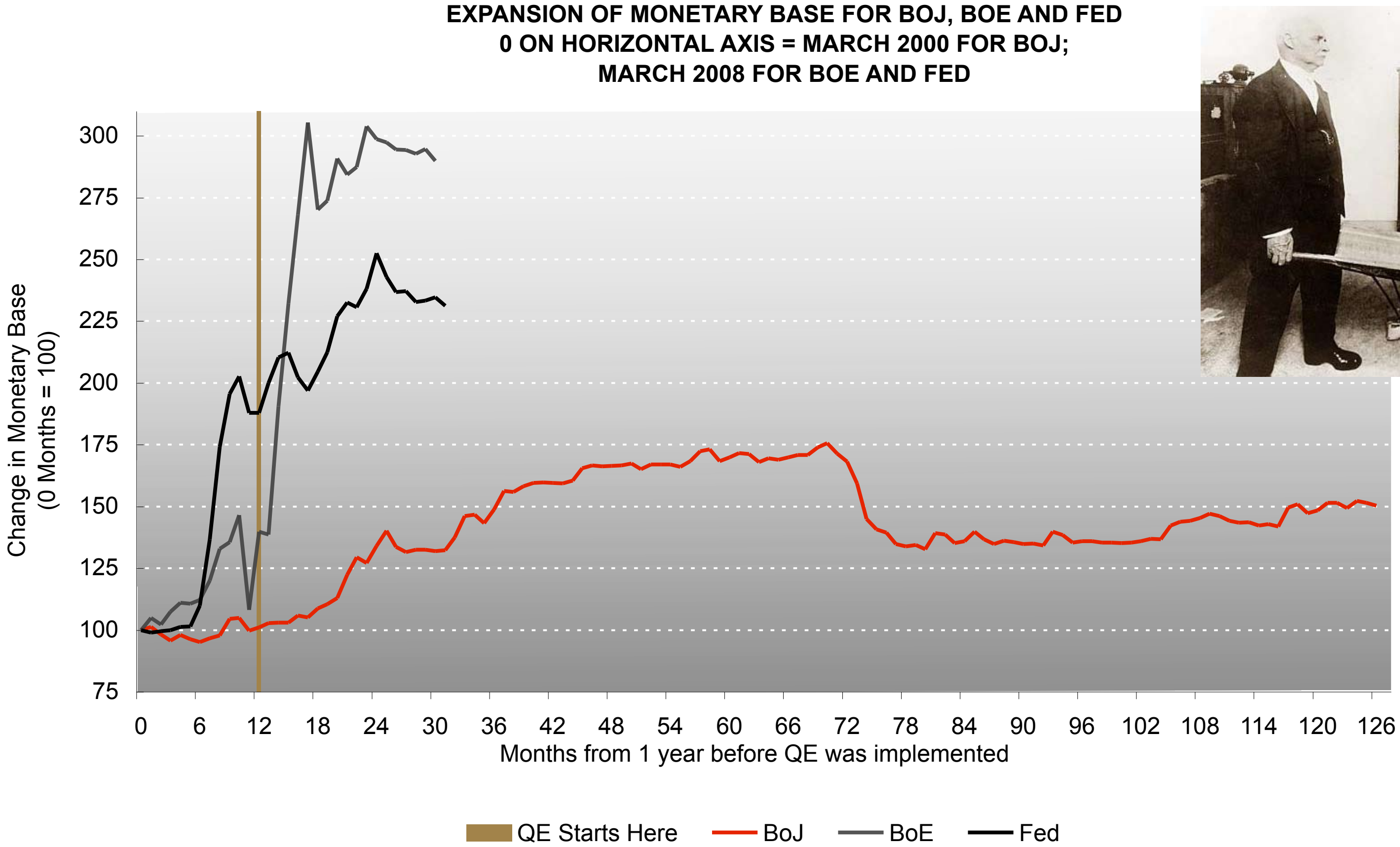
BOE: MONEY PRINTING NEVER FELT SO GOOD

The Bank of England has been more aggressive than any other central bank in expanding its balance sheet.



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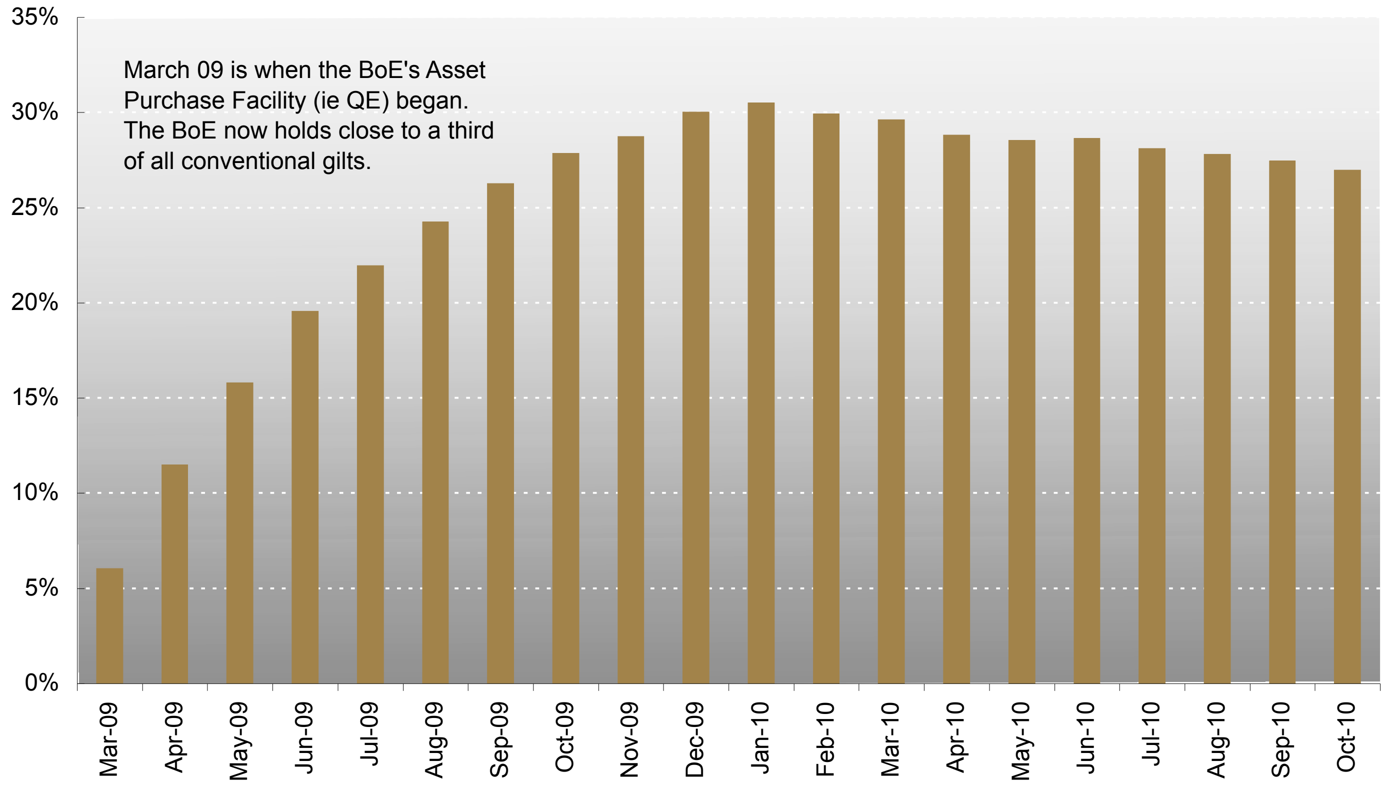
BOE BECOMES THE GILT MARKET

BoE bond purchases have been over £200 bn. BoE owned almost a third of all conventional Gilts outstanding last year. BoE's proportion of Gilt holdings have gone down slightly, only because it has paused its buying while the DMO has been issuing new gilts like they are going out of fashion.

BANK OF ENGLAND GILT HOLDINGS AS A % OF OUTSTANDING



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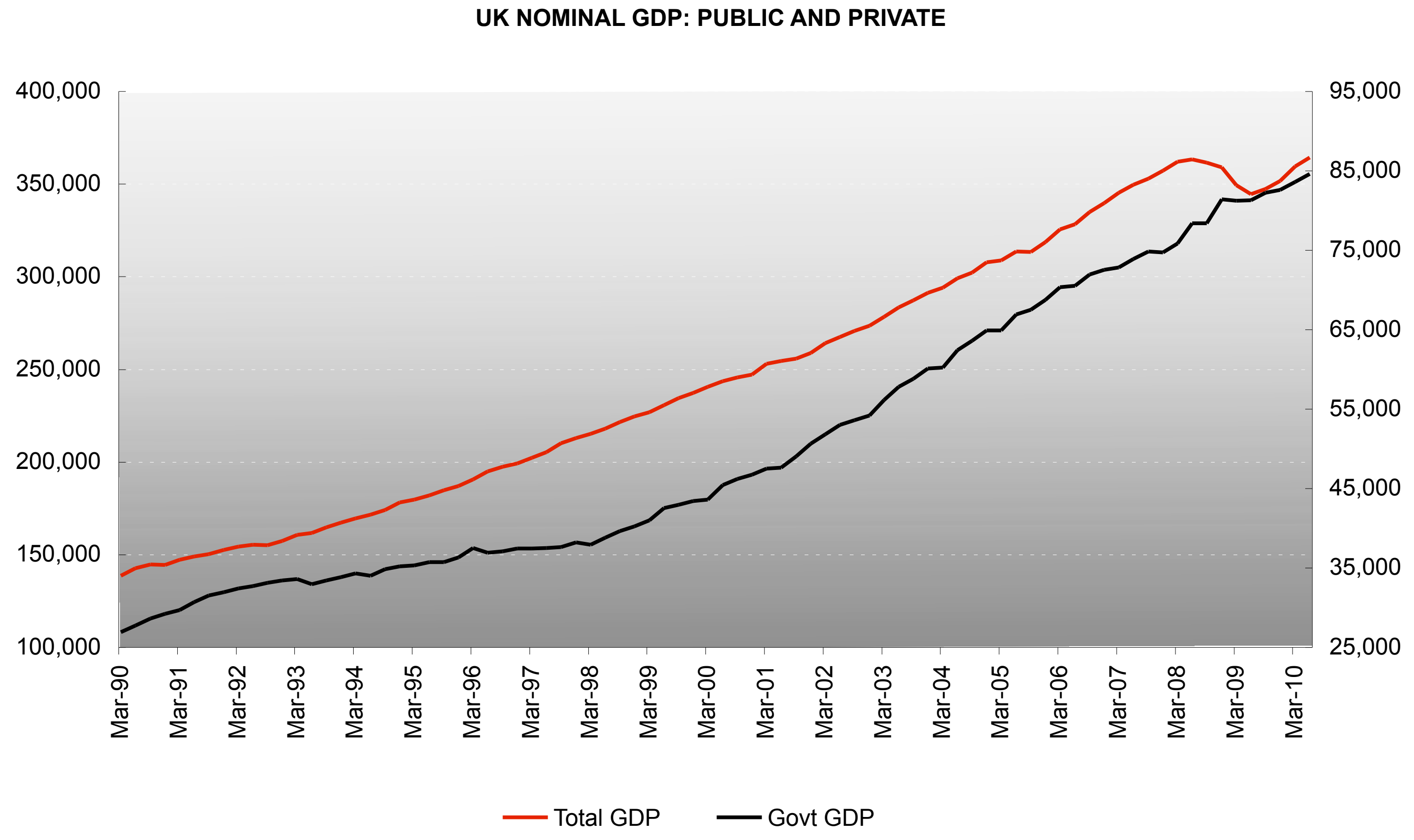
UK - IT'S THE LEVEL STUPID

"It's the level, stupid – it's not the growth rates, it's the levels that matter here"

Mervyn (Major T.J.) King ("Kong")



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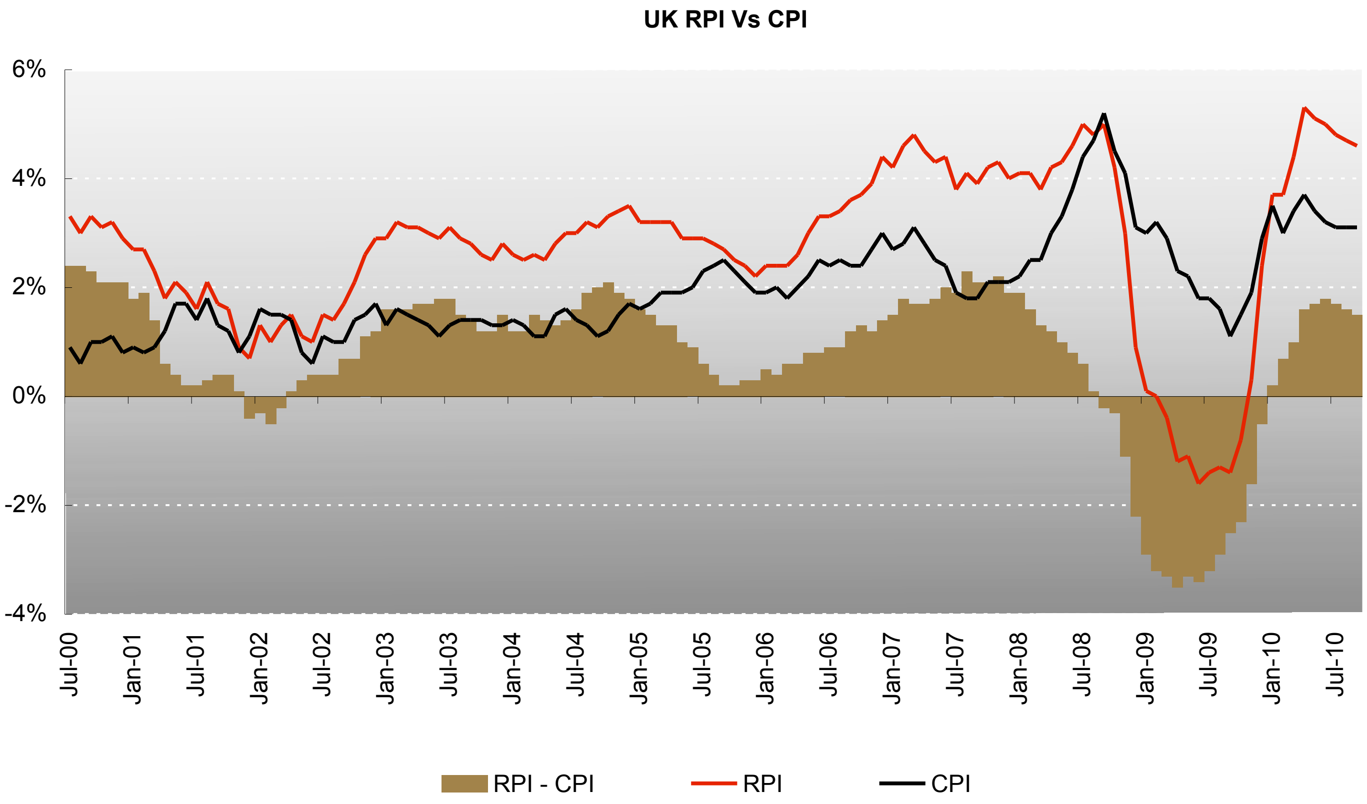
NICE ONE MERV: INFLATION IS DOING ITS JOB

UK Debt to Nominal GDP is falling. UK Nominal GDP is at new highs.

Debt is fixed, while GDP grows nominally. The real burden of debt is eroded as inflation rises unexpectedly.



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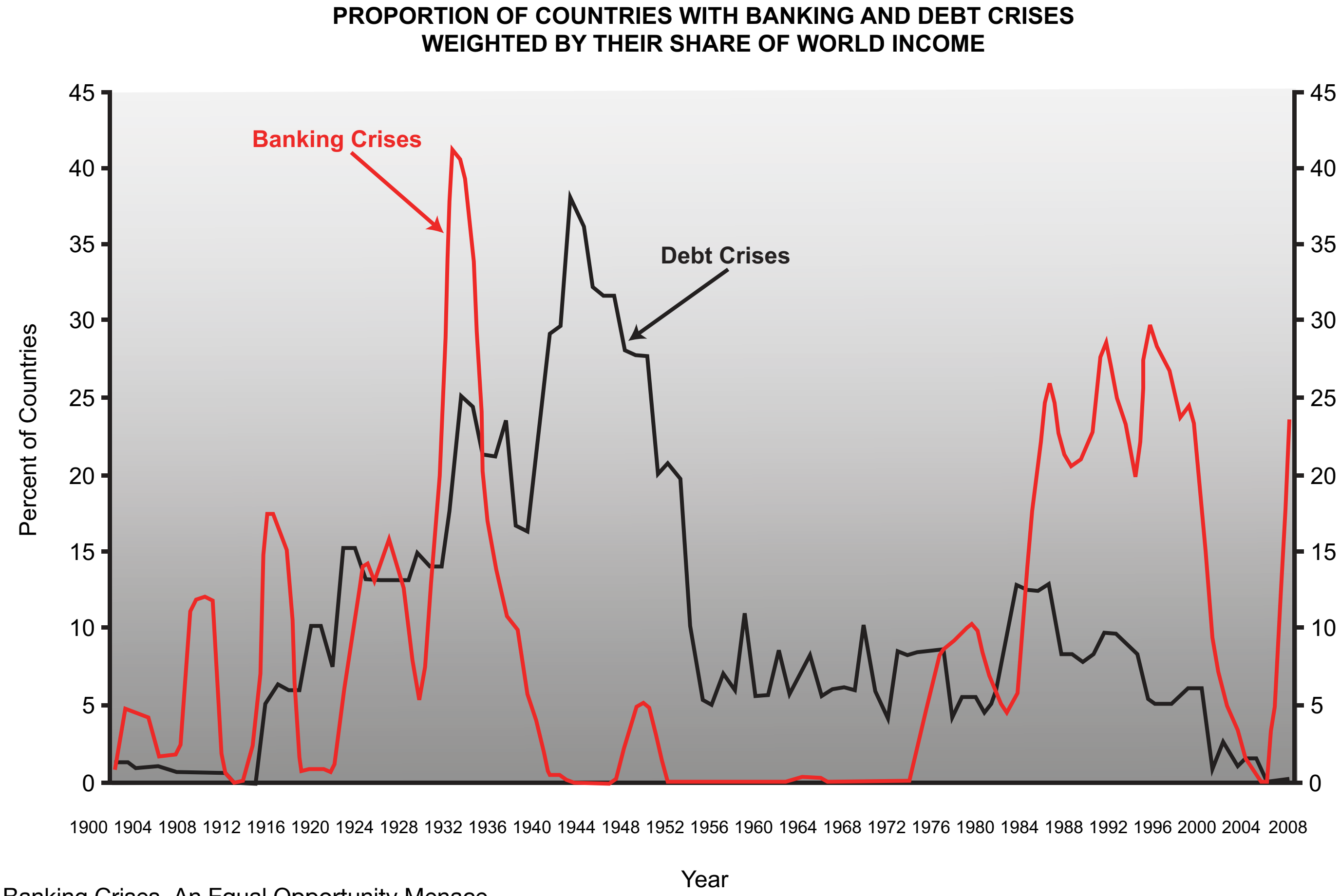
UK: THIS TIME IS NOT DIFFERENT

The UK has suffered a severe banking crisis, whereby debts have merely been transferred, not extinguished... yet. Large banking crises and deleveraging processes typically lead to sovereign crises. The UK will be no exception.



Source: Reinhart and Rogoff, Banking Crises, An Equal Opportunity Menace

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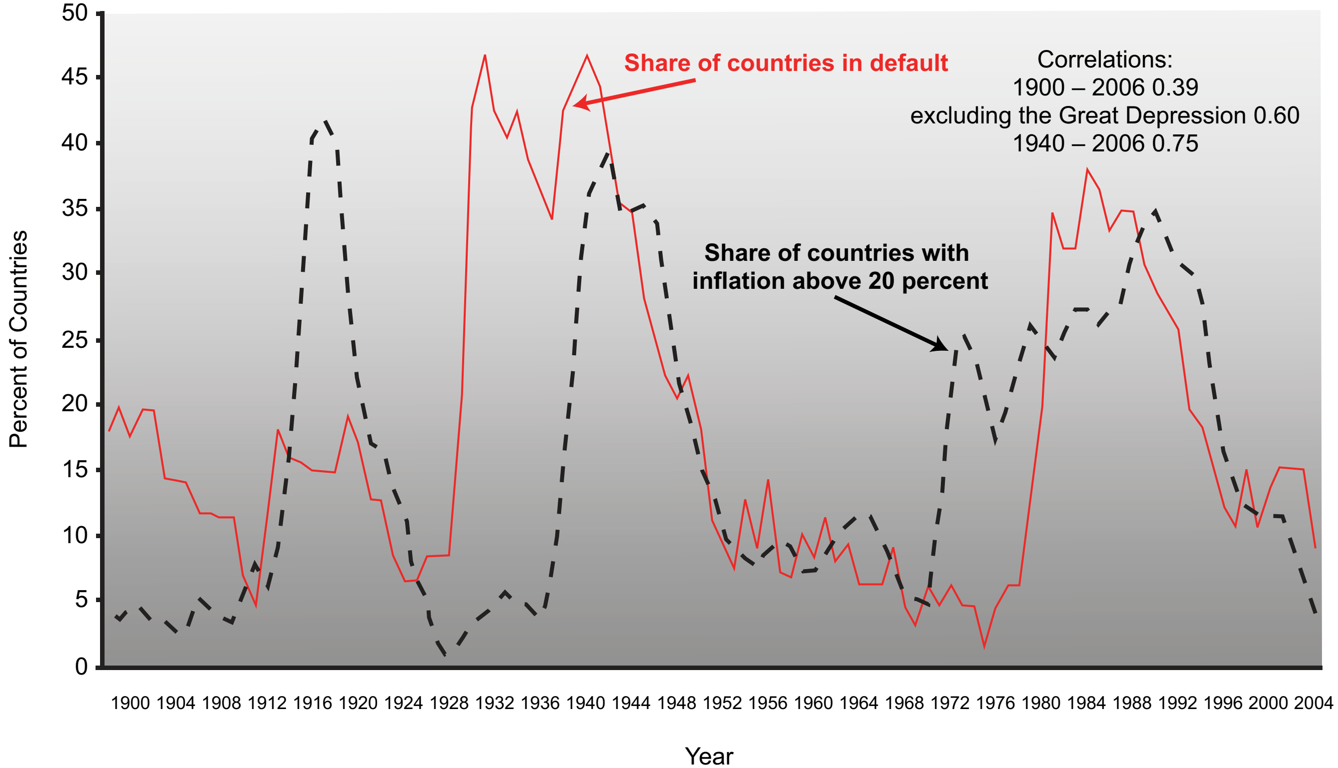
TOO MUCH DEBT LEADS TO INFLATION

UK implicit default risk high as inflation arises potentially from debt monetisation.

INFLATION AND EXTERNAL DEFAULT: 1900-2006



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HIGH (HYPER) INFLATION IS A POLITICAL OCCURRENCE

"The figures demonstrate clearly that deficits amounting to 40 percent or more expenditures cannot be maintained. They lead to high inflation and hyperinflations…"

Peter Bernholz "Monetary Regimes & Inflation...pp.71"

High (hyper) inflation is caused by financing huge public deficits through money creation.

Even 20% deficits were behind all but four cases of hyperinflation.

The UK deficit may be 11.5% the size of the UK economy, but currently the UK deficit is over 25% of all government spending.

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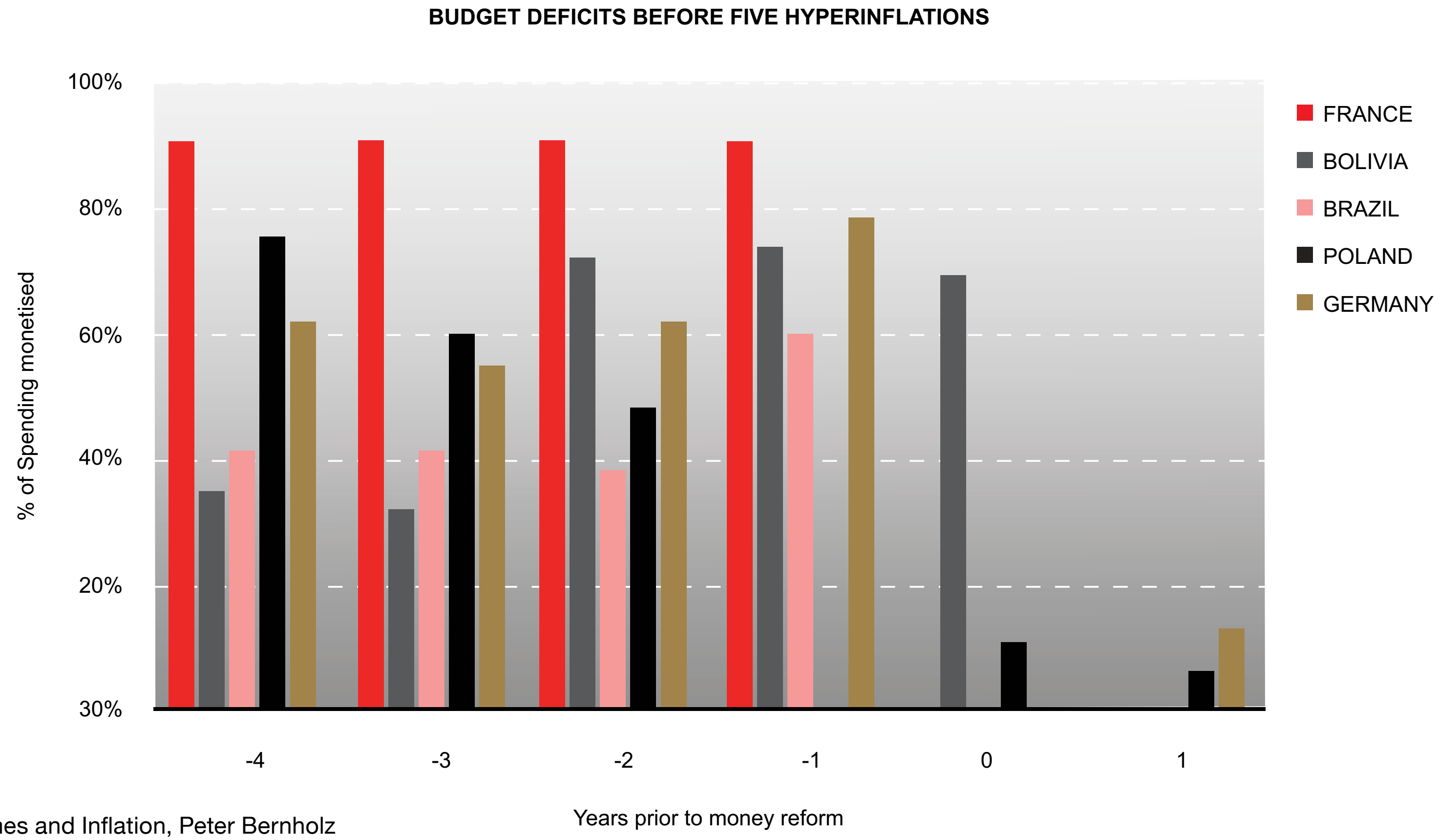
DEFICIT LEVELS RELATIVE TO EXPENDITURES BEFORE HYPERINFLATION

King monetized 100% of the UK budget deficit. This makes the UK a prime candidate for hyperinflation. Unfortunately we don't have any gold to protect us.



Source: Monetary Regimes and Inflation, Peter Bernholz

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JAPAN: MONETARY MIKADO

Japanese debt is like a bundle of “Mikado” sticks, try to remove one and the whole lot could collapse...

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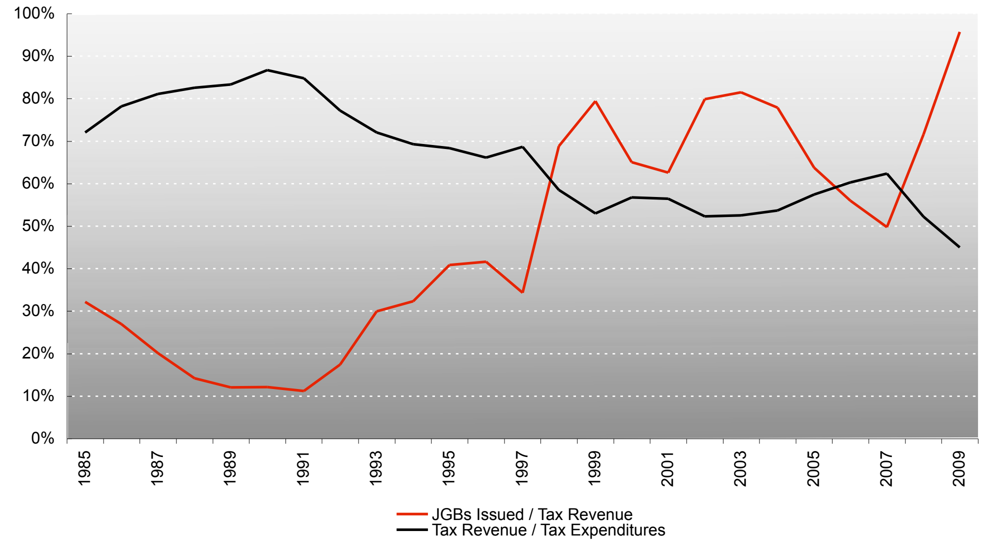
JAPAN: A TIPPING POINT FOR SOVEREIGN DEBT

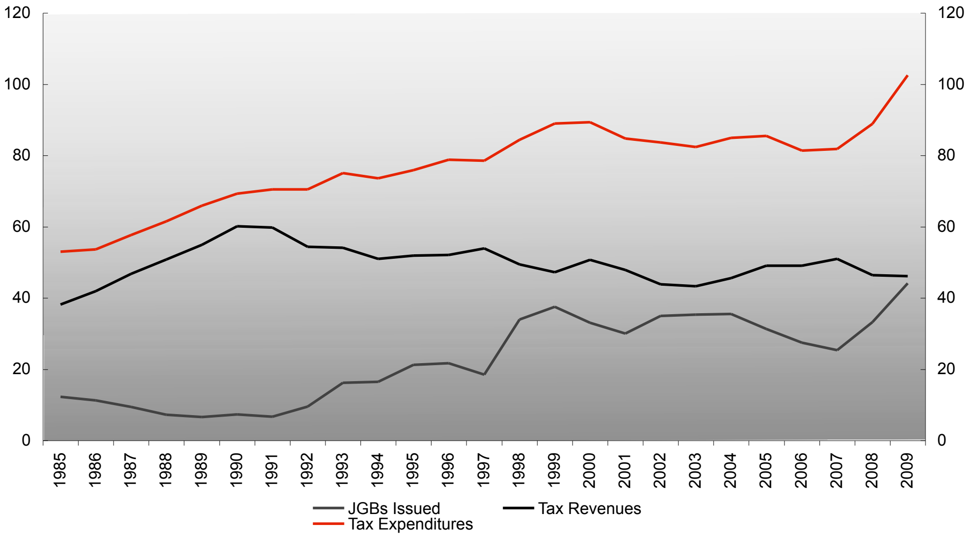
Japan over the last year issued more JGBs than tax revenues it collected. This is not sustainable. Japan's fiscal situation has been dire for some time.

Either Japan will right itself through political reform, ie debt restructuring and tax increases - and these would likely not be enough - or it will be a prime candidate for hyperinflation.

JGB TAXES, EXPENDITURES AND JGBs ISSUED



TAX REVENUE, EXPENDITURES AND JGBs ISSUED



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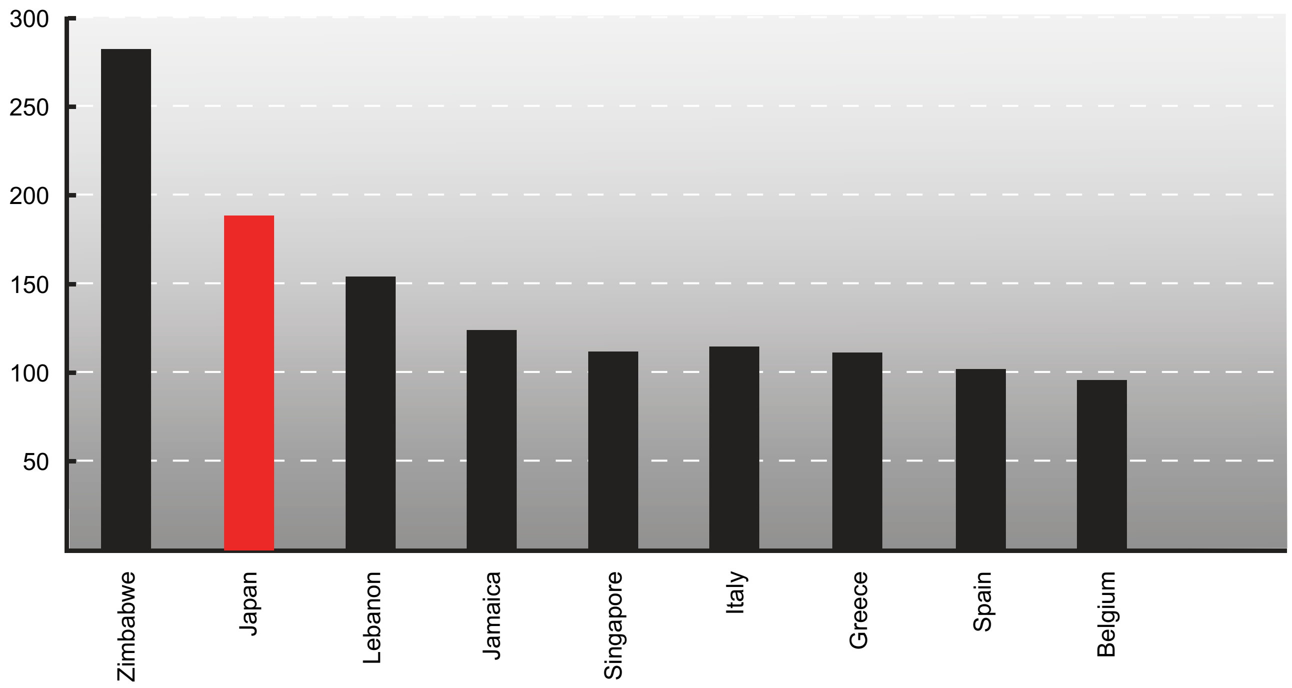
HYPERINFLATION, 'BABURU KEIZAI' ENCORE?

Japan's debt levels are now at levels only seen historically in hyperinflationary countries. By 2010 gross debt to GDP will be over 200%.

Net debt is 110% of GDP, which is better, but the asset side is owned by private sector, so does not help government financing even if they attempted confiscation.

To understand Japan debt dynamics click here: http://www.hindecapital.com/reports

GOVERNMENT DEBT / GDP



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BOJ SHIRAKAWA GOES 'STRANGE LOVE-LY' NUCLEAR

Shirakawa rides the Bomb, Oct. 5th BoJ statement allows unlimited bond purchases and all but the kitchen sink.

October 5th, 2010 BOJ implements comprehensive monetary easing policy change 35 tln yen:

1. Overnight call rate to remain at 0 to 0.1 % ("encouraged").

2. Maintain ZIRP on basis of the "medium – to long term price stability" ("forever").

3. Establishment of a 5 tln yen Asset Purchase Program – "temporary" measure to purchase government securities, ABCP, corporate bonds, ETFs, J-REITS.

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LAND OF RISING SUN SETS SOONER

Japan has a history of 180 degree turns:

Isolation to engagement and militarism to pacifism.

Meji Restoration – restored Imperial rule in 1868 and disposed of Shogunate rule enabling capitalism on Western scale instead of feudalism.

Yoshida Doctrine – post WW2 pacifism and economic development, in spite of US encouragement for rearmament.

PM Yoshida: Japan renounces “war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.”

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A GOLDEN JUBILEE 2010...

Ms. Watanabe sells her bonds as Japan reflates, rearms and purchases gold.

900 tln yen worth JGBs is 10.588 tln USD at 85 yen

At $1,300 troy oz gold = 8.14bn ounces or 253,000 tonnes (8.14bn/31250) gold

But if gold at $13,000, Mrs Watanabe only needs 25,000 tonnes

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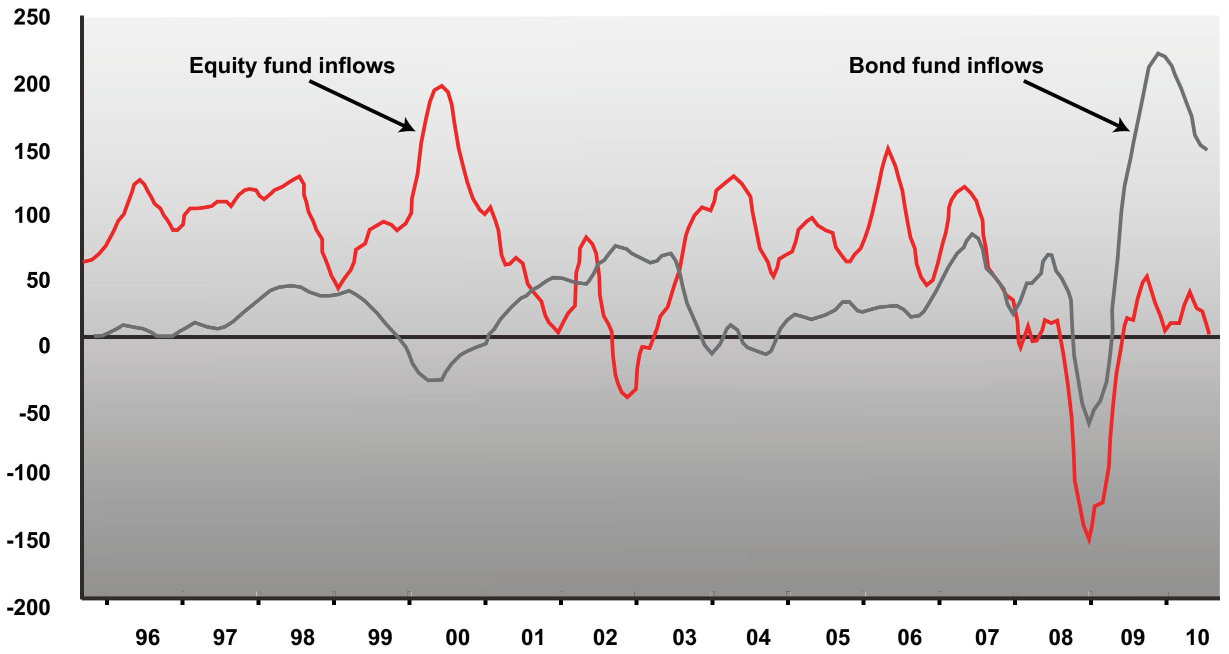
BUBBLES: NASDAQ AND SOVEREIGN BONDS?

Public debt, actually, has always had a Ponzi-like characteristic.

"The global financial system continues to be unsound in the same way that a Ponzi scheme is unsound: there are not enough cash flows to ultimately service the face value of all the existing obligations over time. A Ponzi scheme may very well be liquid, as long as few people ask for their money back at any given time. But solvency is a different matter – relating to the ability of the assets to satisfy the liabilities."

John Hussman



Source: Behavioral Investing, James Montler

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DEBT IS MONEY, GOLD WAS MONEY, WILL BE MONEY...

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).

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

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

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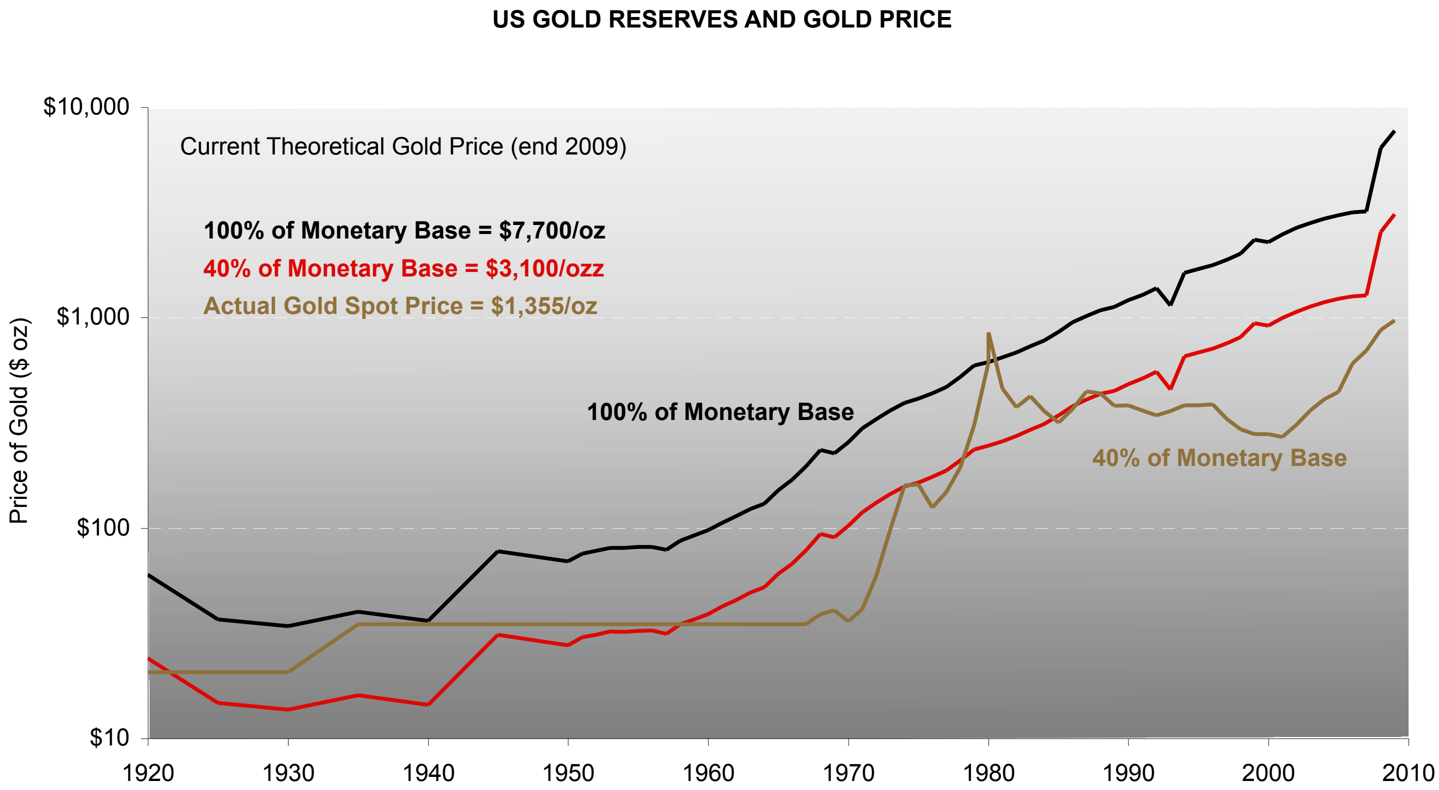
GOLD: THE CURRENCY OF *FIRST* RESORT

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.



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

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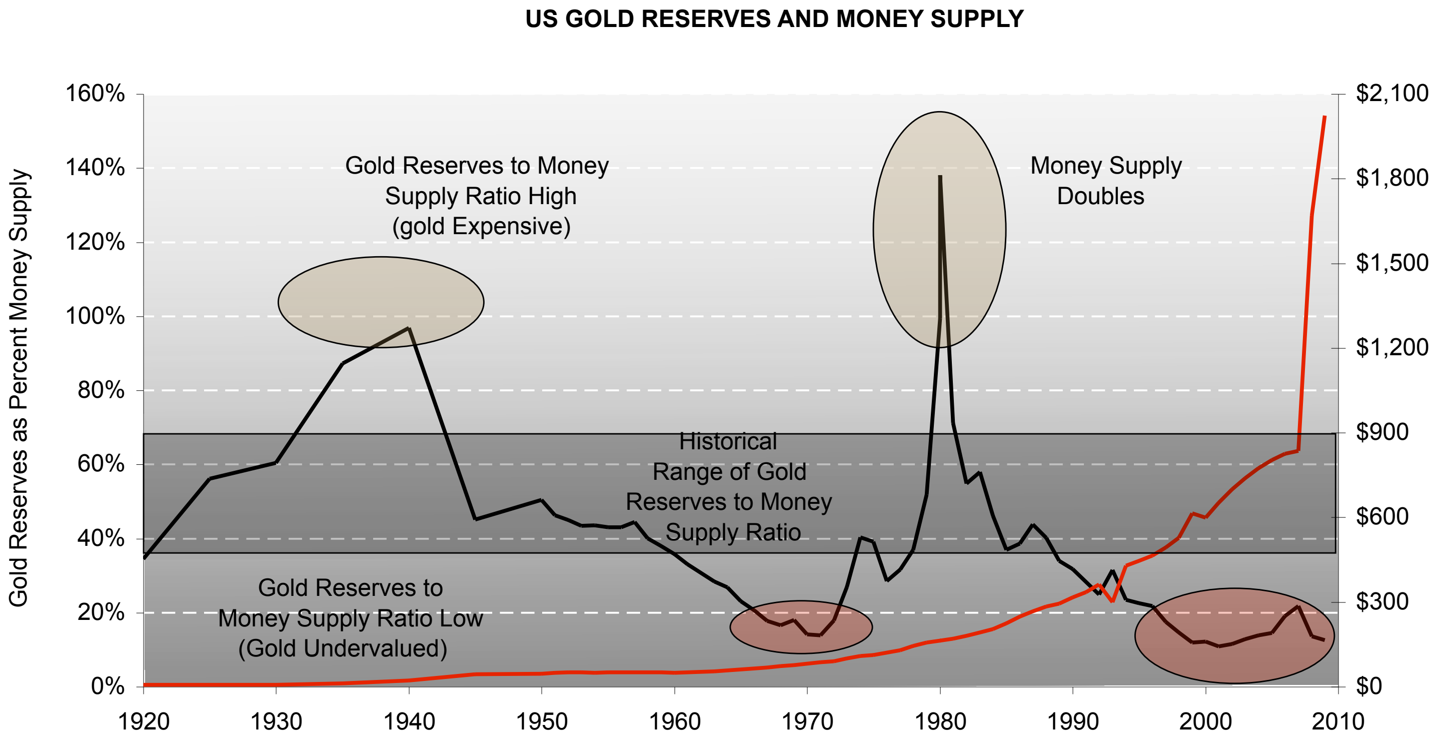
WHEN ARE WE WRONG?

Korean and Vietnam “American” War saw surge in US money supply.

In 1971 using a 40% ruling the price of gold should have been $119 troy oz. It was $35.
It was fixed. This discrepancy led to Nixon breaking the gold window and voting for gold.



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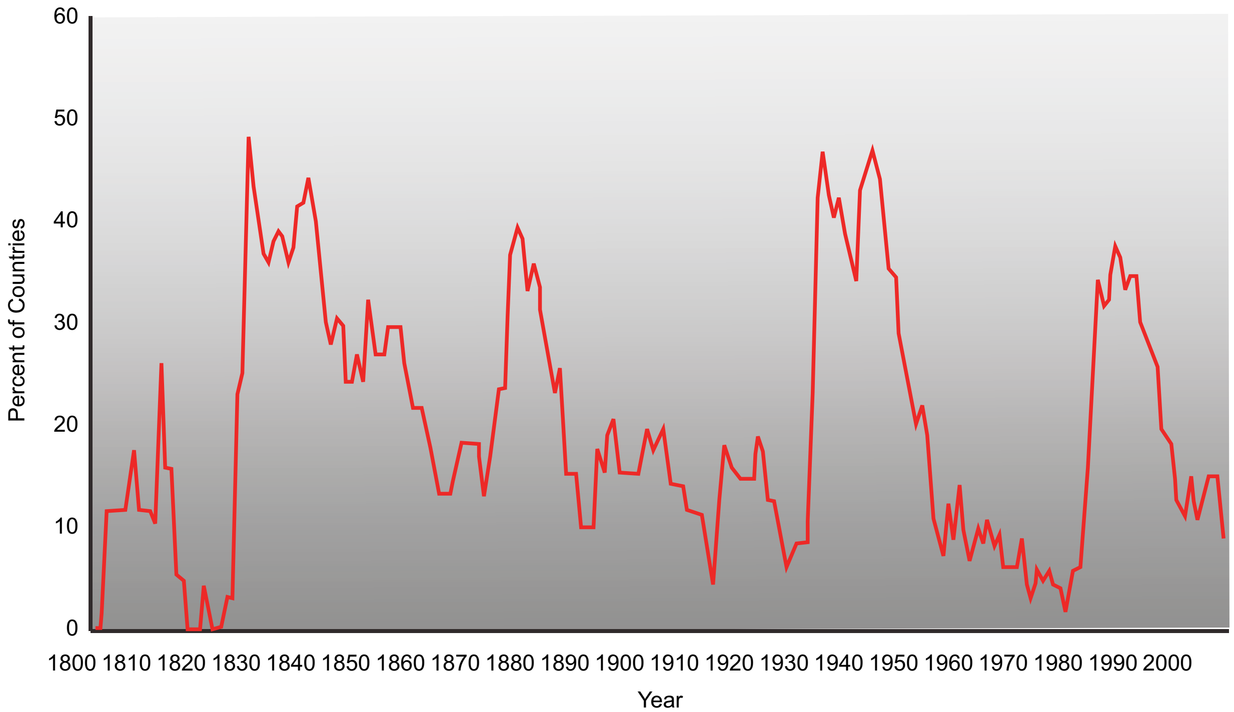
A CRISIS OF CONFIDENCE: GOLD IS THE DEFAULT CHOICE

“When you run these big debts, the problem is not with your children or your grandchildren, it’s in our lifetime.”

Kenneth Rogoff 2010

Sovereign countries rarely default alone. The world may survive a Dubai, Greek or Latvian default but what happens if a major G7 country defaults such as Japan or...?

SOVEREIGN EXTERNAL DEBT: 1800-2006
PERCENT OF COUNTRIES IN DEFAULT OR RESTUCTURING



Source: Reinhart and Rogoff, This Time Is Different

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"Gold is the hedge against political instability and government default"

(A Gold Warrior, 2010)

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HINDE GOLD FUND: A UNIQUE INVESTMENT

- A long bias gold bullion fund with close adherence to USD spot gold price
- A managed gold investment in three share classes EUR, GBP or USD
- A potential return in excess of the spot gold price
- A cheap method of owning physical allocated gold
- A secure method of owning physical allocated gold
- An investment in growing gold ounces vis a vis up to 25 % small cap mining holding
- A liquid investment, no subscription or redemption fees, and same month dealing

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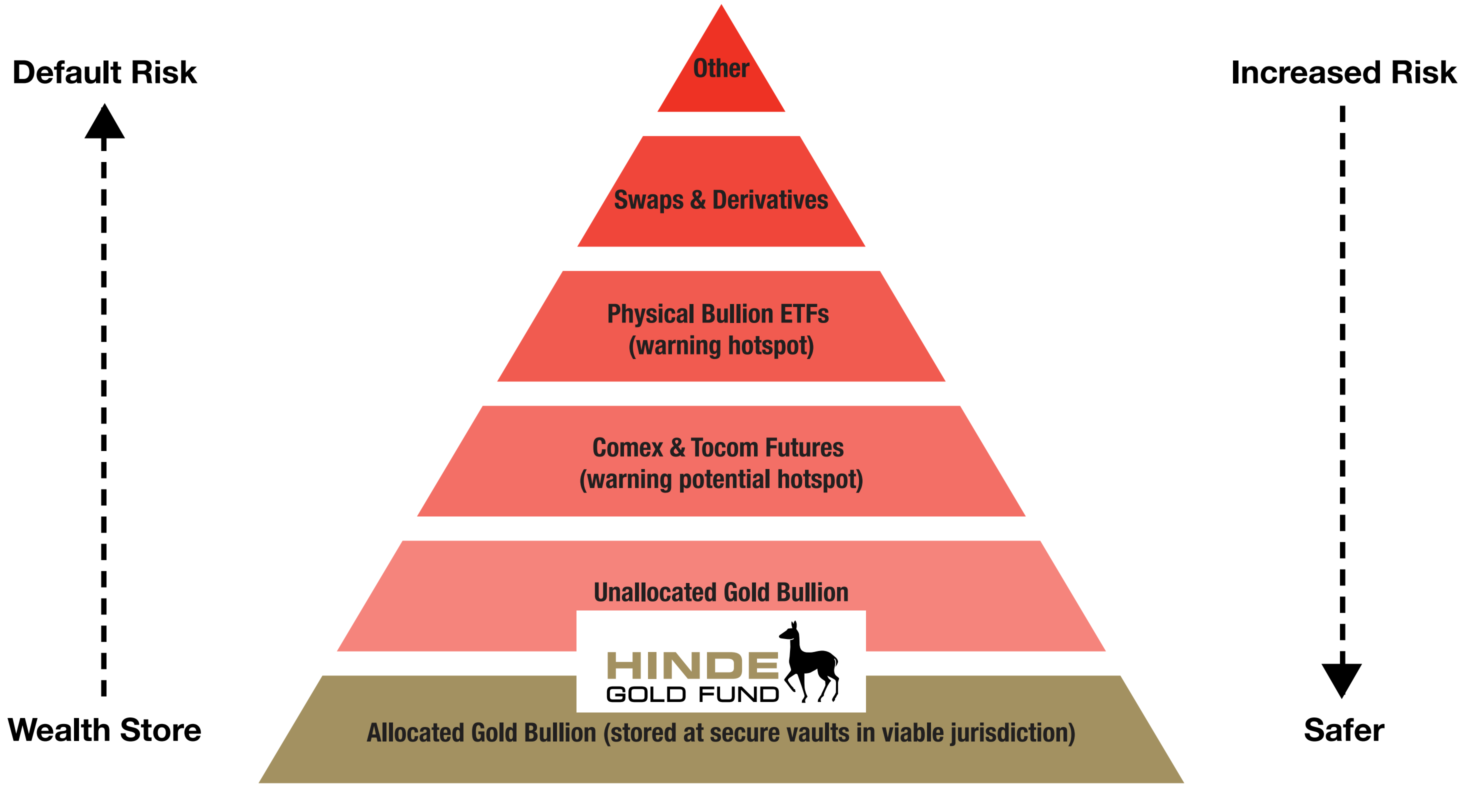
HINDE CAPITAL

HINDE GOLD FUND: A HIGHLY SECURE INVESTMENT



ETFs and other vehicles for gold investment have inherent risk investors may be unaware of. An investment should hedge out all possible credit risk. Hinde Gold Fund achieves this by investing in allocated gold held in a reputable Swiss Private Bank.

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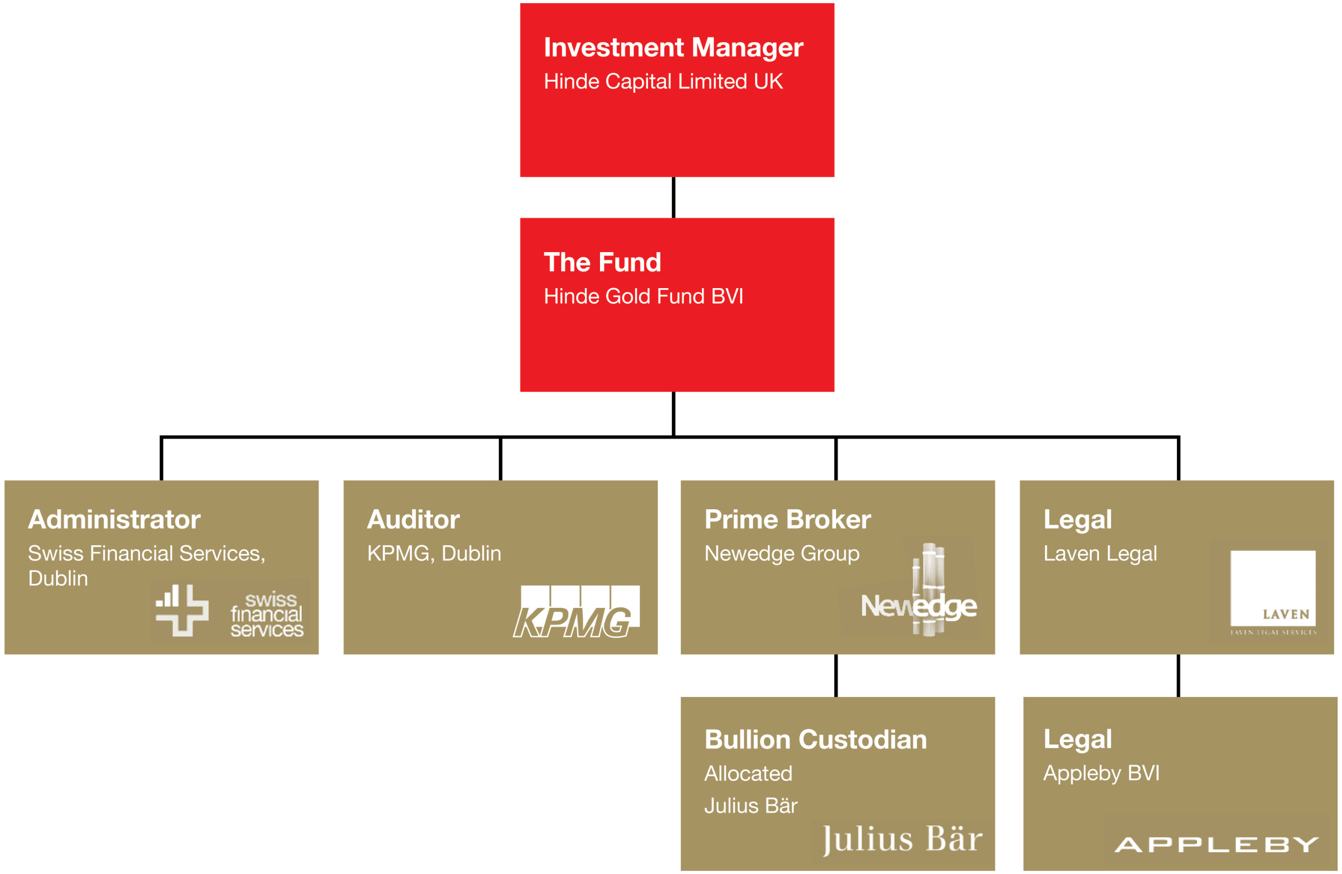
HINDE CAPITAL

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



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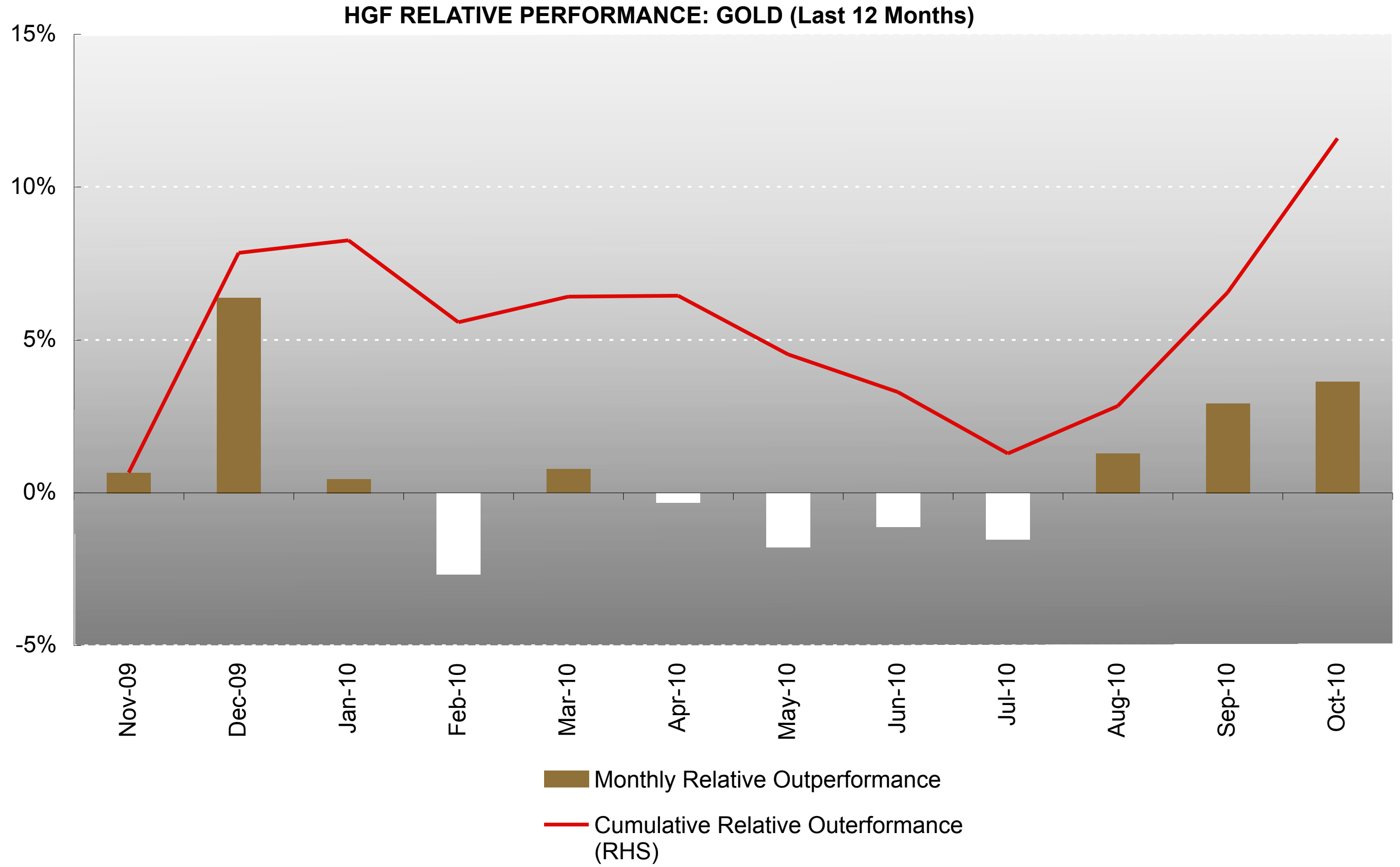
HINDE GOLD FUND

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



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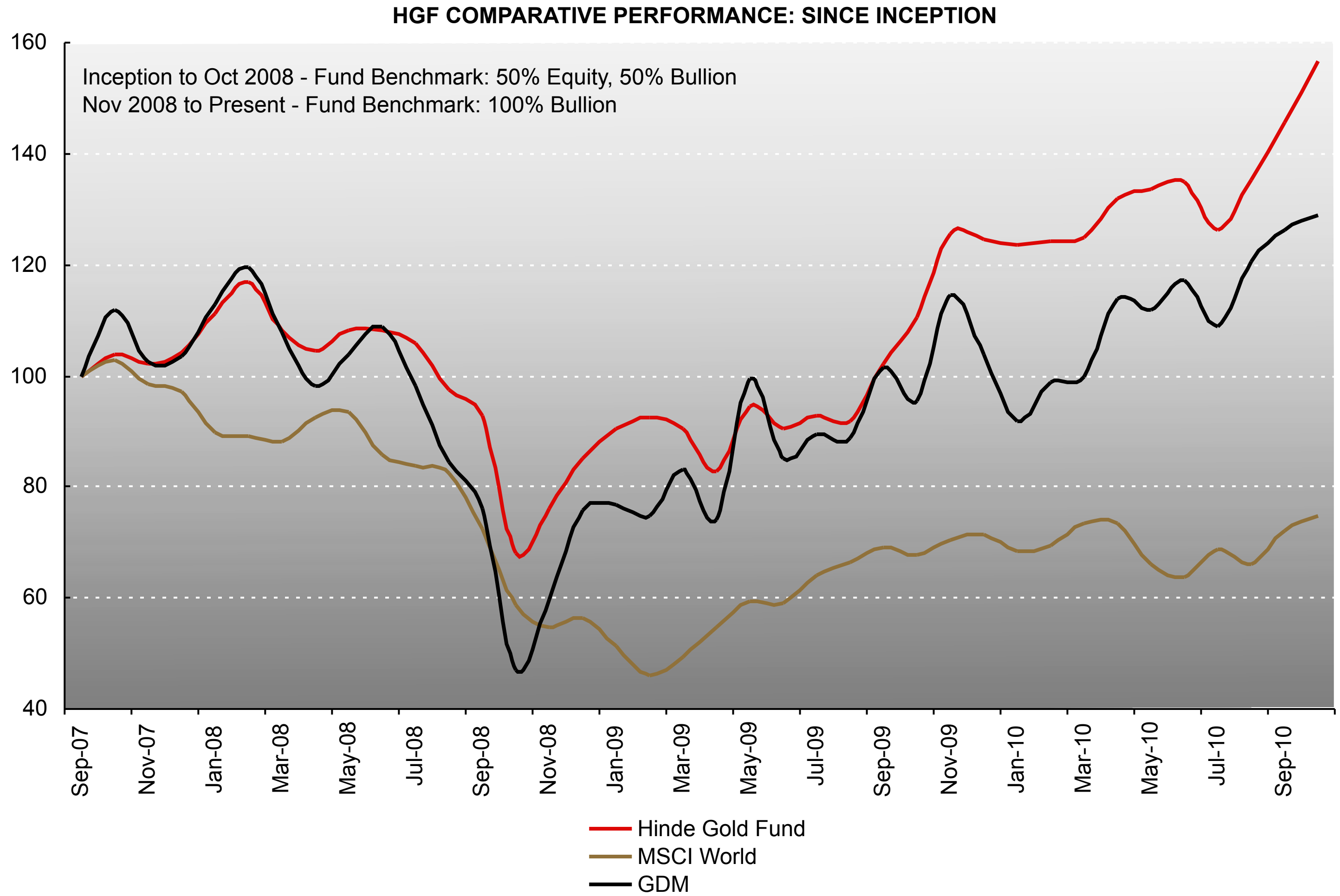
HINDE GOLD FUND

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



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

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HINDE CAPITAL: INVESTMENT MANAGERS

BEN DAVIES, CEO

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 to Greenwich Capital in 1999. He graduated with a BSc in Management from Loughborough University. 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, CFO

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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