"Paper money eventually returns to its intrinsic value - zero" - Voltaire, 1729

Dear Investor,

A lot has transpired between the end of 2021 and the end of the first quarter this year. The stock market appears to have peaked in early January, ushering in a likely bear market for the foreseeable future. The economic fundamentals underlying the stock market are rapidly deteriorating, as the virus crisis subsidies handed out to households by the Government - the so-called "stimmies" - have largely been spent. Price inflation continues to get worse. In response, the Fed has embarked on an interest rate hike cycle along with a general tightening of monetary policy.

And of course a major war erupted between Russia and Ukraine. In response, the U.S. along with the western half of the world has imposed economic and financial sanctions in an attempt to restrict Russia's ability to trade with the rest of the world. Ironically, it appears that these sanctions are back-firing, potentially triggering a "reset" of the global monetary system.

In brief, the U.S. has "weaponized" the dollar's status as the reserve currency by imploring western Central Banks to freeze Russia's foreign currency reserves and banking assets held at western Central Banks (China has not put a freeze on Russia's currency reserves). This has in turn triggered a move by non-western countries to work around this by settling trade with Russia either in each country's respective domestic currencies or in gold.

While this is going on, Xi Jinping eschewed a meeting with Biden and instead met with the Saudis to discuss settling oil trades in yuan. We don't know if this will spawn the "petroyuan" but it will certainly advance the removal of the dollar as the reserve currency. Xi also met with Turkey's President Erdogan, who said that Turkey was more than happy to settle trades with China in yuan, rubles or gold.

Regardless of which side of the Russia/Ukraine/U.S./NATO conflict you might associate, it has without question shined a bright light on the dollar's diminishing status as the reserve currency. More important, it has pulled gold into the conversation as an alternative trade settlement currency.

The implication of these events unfolding is that, not only is a monetary system reset in motion, but we believe that along with this, the price of gold will "reset" to a much higher price in order to reflect a more appropriate valuation relative to the degree to which fiat paper currencies have been devalued from Central Bank money printing.

While periods of crisis trigger a rush into physical gold (and silver), the measures taken by the west in an attempt to punish Russia financially and economically, especially the seizure of

Russian currency reserves held in custody at western Central Banks, could backfire by causing central banks globally to reassess their exposure/reliance on the dollar and other fiat currencies as "currency reserves" held at foreign Central Banks. This in turn would incentivize Central Banks to look at further building physical gold and other hard asset reserves that are not kept in foreign central bank custodial accounts. This in turn could cause an explosive move higher in the precious metals sector.

We've received questions about the effect higher interest rates will have on the precious metals sector. The conventional narrative is that the price of gold (and silver) moves inversely with interest rates. Recall from the Q4 2021 letter, however, historical data suggests the opposite. Going back to the early 1970's, interest rate hike cycles by the Fed have correlated with some of the best periodic rates of return for gold. The most likely explanation is that the Fed historically responds to inflation too late to slow it down. Once the Fed starts hiking interest rates, it signals to the market that the Fed has lost control of monetary policy. This triggers a large flow of capital into the precious metals sector.

Not coincidentally, the gold price started gradually moving higher in late September 2021, which was around the time the Fed started threatening to tighten monetary policy. With the Fed already considerably "behind the curve" in its effort to reign in inflation, the current rate hike cycle appears to be coinciding with what could be a nasty recession. As such, we're not sure how far the Fed will go to raise rates. If the Fed "flinches" and backs off its current resolve to attack inflation with tighter monetary policy, the dollar will fall off of a cliff and send the precious metals sector soaring.

Per the account statement preparation by Perennial Fund Services, PMOF returned 2.24% after fees and expenses in Q1. The performance lagged the overall sector. This is attributable to the over-weighting of micro-cap junior mining stocks in the equity side of the fund. This subset of the sector typically lags the rest of the mining stocks by a considerable amount until a bull move is well under way.

Assuming the current bull move is sustainable for an extended period of time - and we believe this will turn out to be the case - at some point there will be a large flow of capital into the micro-cap juniors. At some point the juniors will "catch up" to and outperform their larger cap peers. We have positioned the equity side of the fund with an over-weighting of juniors that we believe have a good chance of outperforming their peers as well as holding a smaller amount of large cap producing miners that we believe are undervalued.

Precious metals have always been the ultimate wealth insurance policy against the disastrous fiscal and monetary policies of Governments and Central Banks. Massive fiscal spending deficits in the west, combined with money printing since 2008 on a scale that is historically unprecedented has created unmanageable price inflation as well as geopolitical instability. As a result, we are confident that a move in the precious metals sector is coming that will take nearly everyone by surprise.

Dean and Dave - Golden Returns Capital