Minutes of Advisory Board Meeting

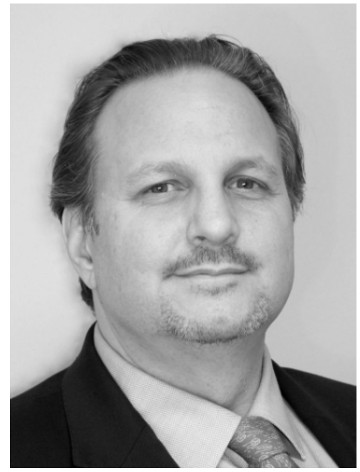
Incrementum Inflation Diversifier

April 25th, 2019

Gold Equities – Finally Turning a Corner?

Highlights of the conversation:

Special Guest – Mark Burridge:



- Stagflation is a possibility, and so is inflation through additional stimulus. Both would be positive for gold.
- Neither businesses, governments, nor consumers, can handle high real interest rates.
- Modern Monetary Theory is aimed at generating growth and inflating away debt.
- Gold companies are finally starting to think about shareholder returns, and capital discipline.
- We are seeing sensible M&A taking place in the gold sector.
- ESG is coming to the forefront, and it's an advantage for the mining sector.
- Technological trends are also positively impacting the mining sector.

Heinz Blasnik:

- In dollar terms gold is far from its historical high. But gold is at, or close to, historical highs in many major currencies. I therefore think the bearish sentiment is overdone.
- The potential for a lot of corporate debt to be downgraded to junk is a ticking time bomb.
- Growth in true money supply in the U.S. has fallen to a 12-year low. If demand for money were to rise, this would suddenly matter a lot.
- The main recession indicators are not suggesting a recession in the short term. But that can turn quickly.
- Modern Money Theory was tried in Germany in the 1920s. It led to hyperinflation.
- I believe the gold mining sector is still in the consolidation phase after the bear market.

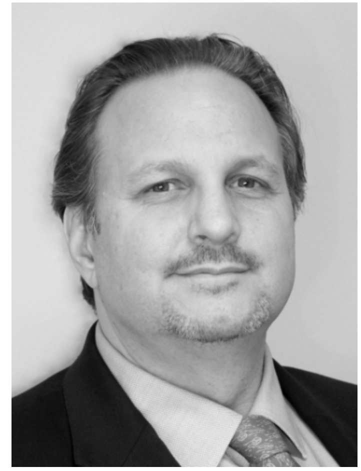
Ronald Stöferle:

- We are happy to announce that Incrementum and Baker Steel have started working together.
- Sentiment for gold is at rock bottom, investors are throwing in the towel.
- Modern monetary theory is being discussed in the U.S. these days; it could be more of a direct stimulus than quantitative easing.
- Negative interest rates are also being discussed.
- These measures are inflationary, and would be positive for gold.

Mark Valek:

- Equities have recovered in 2019, but bonds have not moved. That is not a good sign for the equity market.
- The trend in short term interest rates suggests that if we have another leg down in the stock market, the drop could be big. If that happens, real interest rates should decrease, which is positive for gold.
- The system needs nominal growth to service nominal rates. GDP targeting is simply a strategy aimed at boosting nominal growth.

Biography of our Special Guest – Mark Burridge:



Mark is a Managing Partner at Baker Steel Capital Managers, a natural resource investment specialist based in London. Mark has over 25 years' experience in the international metals and mining industry, including technical, financial and executive roles. Mark spent several years of his early career in geological & geological engineering roles, predominantly at Barrick Gold Corporation. Mark then spent five years at Merrill Lynch covering the Metals & Mining Equities, where he became a ranked Analyst. Following this Mark helped launch Hatch Corporate Finance, a corporate finance boutique, where he became Managing Director. Furthermore, Mark has worked in several Executive, Advisory and Board roles at mining companies. Mark holds a degree in Mining Geology from the Royal School of Mines, Imperial College London and is a CFA Charterholder.

Transcript of the conversation:

Ronald Stöferle:
Gentlemen, welcome to this quarter's advisory board call. We are happy to have Mark Burridge on the call. Mark is a Fund Manager at Baker Steel. Mark has over 25 years' experience in the international metals and mining industry, including technical roles at Barrick Gold.

Mark, thank you for taking the time to be on the call. We look forward to discussing gold, mining equities, and trends in the industry.

Mark Burridge:
Thank you for having me.

Ronald Stöferle
I would like to mention that Baker Steel and Incrementum have just started working together, launching a share class. Incrementum carried out a comprehensive competitive analysis of the industry and we found that Baker Steel's Precious Metals Fund had the best track record in the European market, with a great risk/reward profile. Baker steel is in a perfect spot to invest in mid-caps, given the size of the fund. We are therefore very exited to work with Baker Steel.

Let me cover some housekeeping before we get started. Our upcoming In Gold We Trust report will be published on the 28th of May. It will be quite a brick again because there is so much to talk about. Once again, we have a special chapter on de-dollarization. And we have an exclusive interview with the people behind the FOFOA blog (Freegold), which nobody in the industry has had before. We have an extensive chapter about mining stocks, where Baker Steel is contributing. We are also writing about ESG and technology in mining.

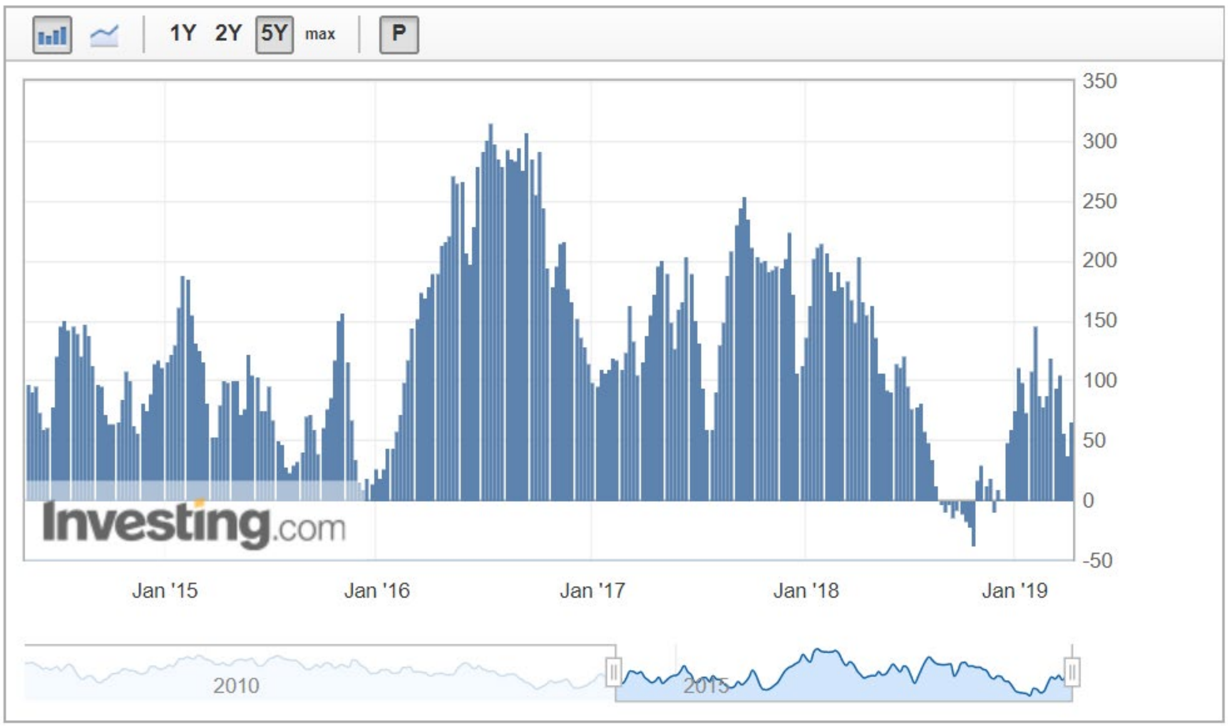
Source: Amazon.com

One of the motives in the new report is trust, or should I say crumbling trust, which we are seeing in many different areas of life, such as media, politics, and central banking.

We recently published a chartbook and launched an updated website, which is also available in Chinese. And we finally published our latest book, "Die Nullzins Falle", which translates to "the zero interest rate trap", in which we talk a lot about the social and economic consequences of zero interest rates. And lastly, we published another edition of our crypto research report yesterday (April 24th). As you can tell, we have been quite busy over the last quarter.

With that said, let's start the discussion. I'd like to start off by talking about gold. We have not been able to break above the resistance at $1,360-$1,380; even though we've tried many times. But on the other hand, there have been other positive developments – we are seeing significant liquidations of speculative positions, the net shorts amounted to a little less than 80,000 contracts last week, which was 40% less than the week before. However, large speculators have reduced their longs as well, reducing their positions by almost 50%. It seems like a lot of players are throwing in the towel. This weakness in gold is taking place against a backdrop of a very strong dollar. It seems like the sentiment for gold is at rock bottom, which could be a good set up for contrarian investors going forward.

CFTC Gold Speculative Net Positions



Source: investing.com

Mark, what are your thoughts on the current situation for gold?

Mark Burridge:
Thanks for that overview, Ronni. It's a very mixed environment for gold right now. We keep thinking that there will be a breakout, but it keeps getting pushed back. At the same time, we are experiencing the surge in dollar strength and continued optimism in the U.S. I think that leads to a very interesting perspective on where gold can go from here. One thing we have to think about is financial stability and the huge debt load carried by governments and individuals around the world.

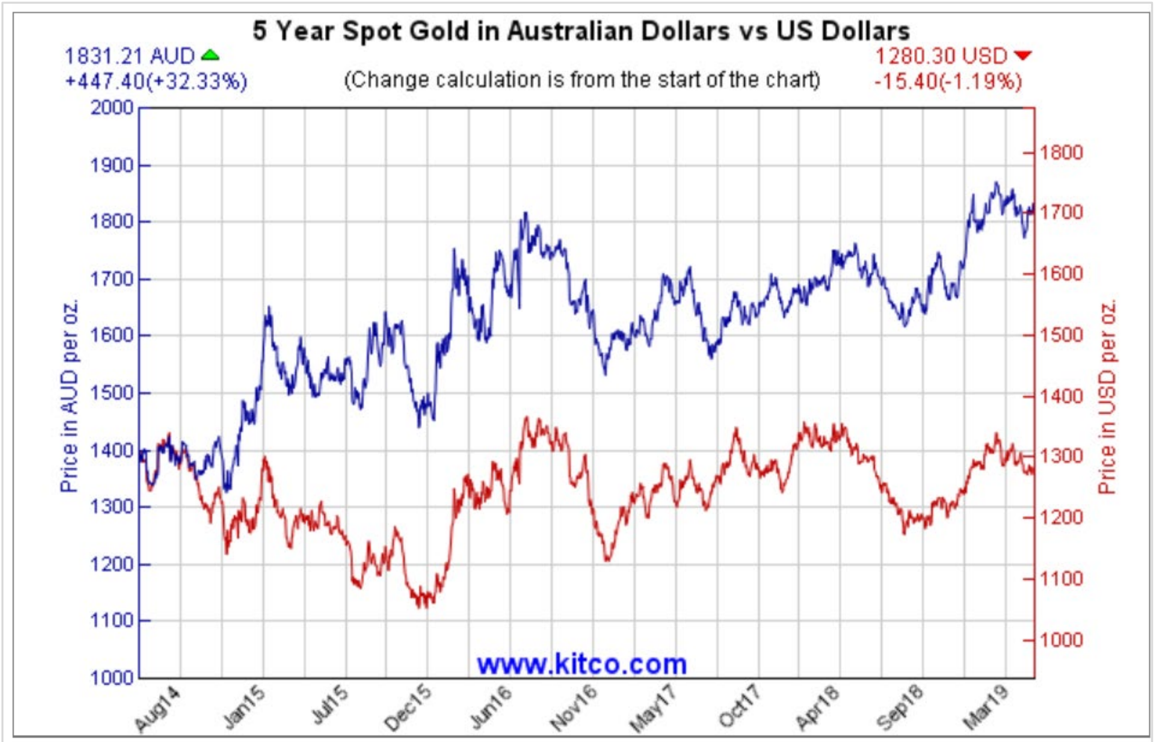
A question I am thinking about is if the U.S. is different because the dollar is a worldwide reserve asset? And does the U.S. have the capacity to deal with its issues? There are several ways this can play out, for example we can have stagflation where we deal with the issue of debt through inflation, but we can't stimulate growth because of all the imbalances that exist. Or perhaps the answer for the U.S. is to double down on growth through more tax cuts and deregulation. Both of these situations would create a positive environment for gold, because they are inflationary. We are at this interesting juncture where whatever happens in terms of the global economic situation it should be positive for gold. Therefore, Gold's rise is not just dependent on a doom and gloom scenario. I'm not saying that these scenarios will definitely play out, but they are interesting questions to think about and it would be interesting to talk about them on the call.

Heinz Blasnik:
An interesting observation about gold is that if we don't look at the price in terms of U.S dollars, it is almost at its former highs in all the other major currencies. For example, in Yen terms gold is almost at an all time high. In Australian dollar terms it is at an all time high. In Canadian dollar terms it is also not too far from its former high, and the same is true for the South African Rand. I'm actually quite surprised that people are so bearish on gold. I guess it's because people are focusing on the U.S. dollar price, and gold's inability to break above its current resistance levels. So I would currently rate the situation as neutral, with a slightly bullish bias.

Gold price in CAD (blue line) vs. USD (red line)

Source: kitco.com

Gold price in AUD (blue line) vs. USD (red line)



Source: kitco.com

But in recent weeks credit spreads have come in again, which is usually bearish for gold. And speaking of credit, there is a certain unease in the market. Everybody knows that corporate debt is too high, and that there is a lot of debt sitting on the lowest rung of investment grade – BBB. If anything bad happens all that debt will be downgraded to junk, and the fund managers who hold it will be forced to sell because their mandate does not allow them to hold junk bonds. This is a ticking timebomb, and it probably won't take a lot for it to blow up. But I don't think it will happen in the near future because risk appetite is still high.

The last thing I want to say is that the growth figure for the true money supply in the U.S. has fallen to a 12-year low. This fall in money supply hasn't mattered so far, which is a sign that the demand for money is still very low. But if for some reason the demand for money should rise, there will not be enough supply, which will cause problems.

Source: dailyreckoning.com

Mark Valek:
Thank you, Heinz.

I'd like to talk about gold and interest rates. Real rates are one of the most important factors for the gold price, but I would like to focus on nominal rates. To recap the last six months, we had a significant drop in U.S. equity markets in the last quarter of 2018, and that's when gold started turning and interest rates started falling. And then in the first quarter of 2019 we had a huge recovery in equities, but basically nothing on the yield side. This suggests to me that this recovery is due to the Fed's pivoting. But as the equity markets are reaching new all-time highs, the bond market is not moving at all, which is not a healthy sign for the U.S. equity markets. I believe that the trend in short term interest rates suggests that if we have another leg down in the stock market, the drop could be big. And to bring it back to what I mentioned in the beginning, this would be favorable for real interest rates.

Heinz, do you have any other thoughts on the macro picture?

Heinz Blasnik:
Recently the yield curve inverted for a short while, but it's turned positive again. Once the yield curve inverts, and subsequently turns positive again, and then rises sharply, it's a sign of recession. We have seen the first two steps taking place, but the yield curve has not started rising sharply yet. There's a good reason it hasn't happened. The main recession indicators, e.g. the PMI new orders component, are actually still solid, and therefore they don't suggest a recession in the short term. But these things can turn relatively quickly, and investors should pay attention to the yield curve for early signs of a recession.

U.S. ISM Manufacturing New Orders Index

Source: investing.com

Ronald Stöferle:
I'd like to briefly mention MMT – modern monetary theory, which we cover in depth in the upcoming In Gold We Trust report. It seems like Donald Trump's fiscal stimulus last year was some sort of MMT policy. And the democratic candidates seem to favor this type of policies as well. The positive impact of MMT on gold could potentially be that it's more of a direct stimulus than quantitative easing, and inflation might be affected more quickly. We are also seeing the recent papers coming out of the San Francisco Fed about negative interest rates. I think it's no coincidence that such papers are published these days and it seems like the Fed is already realizing that the economy is much weaker than headline numbers suggest.

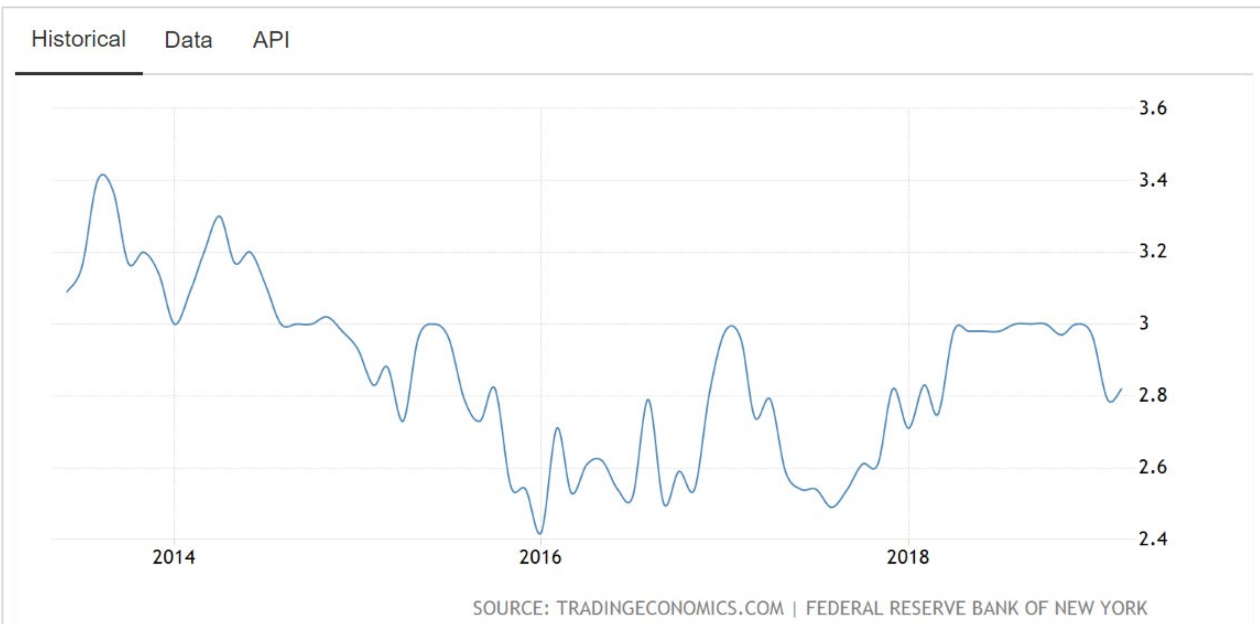
Mark Burridge:
I believe that nobody can afford high real interest rates, whether you are a consumer, government or a business, and MMT hits on that point. Whether you are talking about using fiscal measures to stimulate growth or monetary measures like negative interest rates, they are both aimed at generating growth and inflating away your debt problem. MMT is just a way of reducing the debt burden.

Mark Valek:
I think you're right. The system needs nominal growth to be able to service nominal interest rates. When it comes to GDP targeting, which the government uses, it's simply a strategy aimed at boosting nominal growth. MMT is another tool aimed at doing the same.

Heinz Blasnik:
I actually wrote a long blog post about MMT a few years ago. MMT is actually not new, there's nothing modern about it. It was invented by Georg Friedrich Knapp, and it was implemented by the German Reichsbank in the early 1920s. Knapp believed the government could fund itself by printing money. And Rudolph Havenstein, president of the Reichsbank, believed Knapp was correct. And as we know the outcome was hyperinflation.

Nowadays, the Federal Reserve is not allowed to fund the Treasury directly, and there's a good reason for that. If they were to fund the Treasury they could theoretically create 10 times more money for the commercial banks than they could under quantitative easing. If they were to go down that road, which a lot of democratic politicians believe is a good idea, it would sow the seeds of very strong inflation. Currently the inflation expectation in the market is low, but if such a policy were implemented it would probably change the psychology around inflation.

U.S. Consumer Inflation Expectations



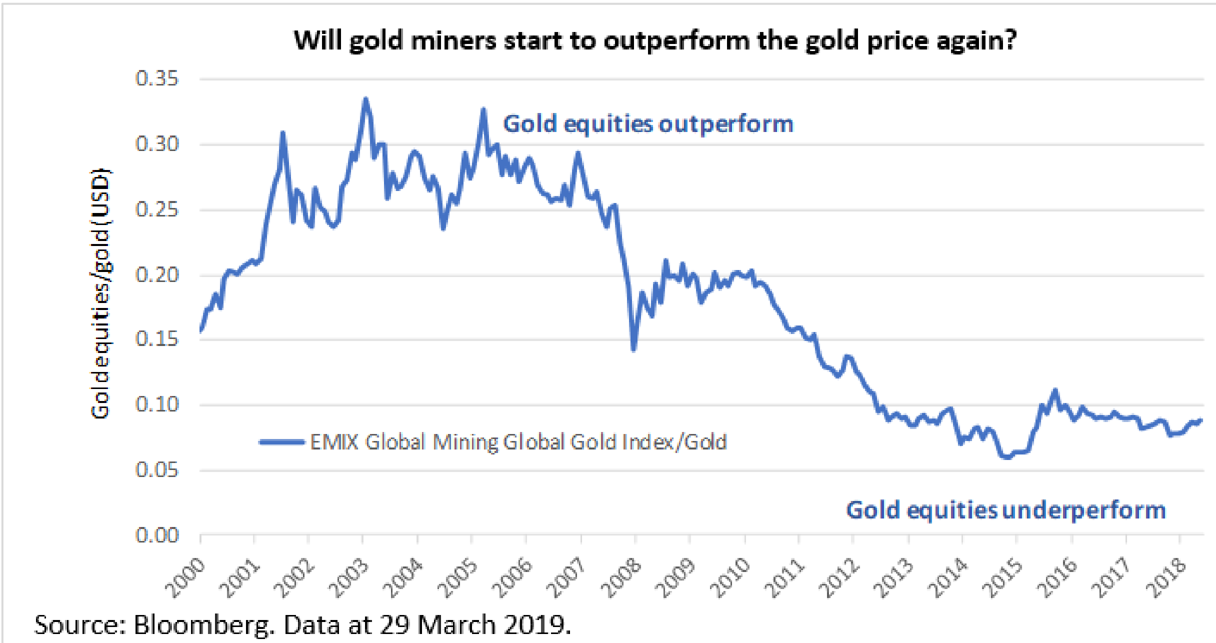
Source: tradingeconomics.com

Ronald Stöferle:
To your point Heinz, I think Dave Rosenberg wrote that there's nothing modern about MMT, they tried it in the Weimar Republic and it didn't work out so well.

I would like to segue into the mining space. Mark, you have a mining background, what kind of trends are you currently seeing? And it seems like ESG is a very hot topic in the mining industry these days; do you think it's a threat, or an opportunity?

Mark Burridge:
Let me start off with some historical context. During the early to mid 2000s gold equities outperformed gold. The reason for that was because in the 90s the gold companies had cut a lot of costs, and when the gold price started rising the companies were like options on the gold price.

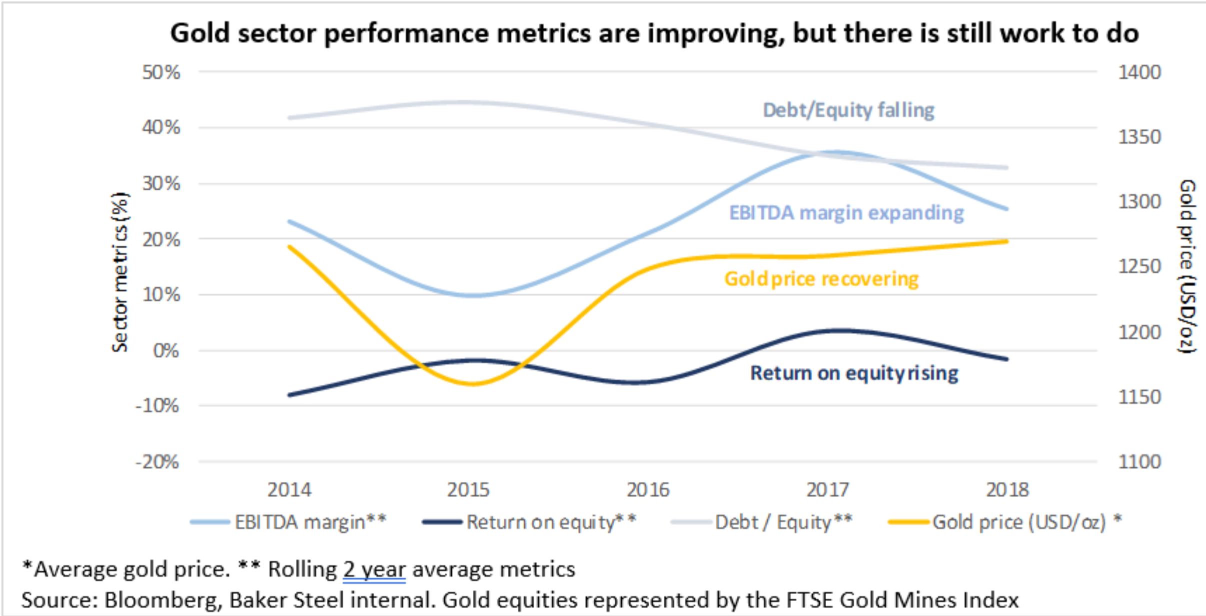
But during the last bull market costs ballooned again and there was a lot of irresponsible M&A activity taking place.



Source: Baker Steel

But as a result of this latest bear market the business performance of the sector has finally started to improve. Return on equity has improved, margins are expanding, and balance sheets are being strengthened. We are at a very exciting juncture for the sector and it's starting to look investable again, not just as an option on the gold price, but as viable businesses that offer value.

Currently I think investors want to buy quality ounces, and we are therefore seeing sensible M&A being done, such as the Barrick Randgold merger, and the Newmont Goldcorp merger. More and more companies are starting to think about shareholder returns, and capital discipline. But we still have a legacy of zombie companies that need a high gold price to survive.



Source: Baker Steel

With regards to ESG, it is coming to the forefront. And on the whole it is an advantage. Companies that take ESG seriously tend to see a positive effect flowing through to their results. And they also tend to be the companies that take their financial planning and project planning seriously. I think ESG should be an integral part of a company's strategy, not just a bolt on. We know a couple of companies that are taking ESG more seriously because they have lost assets due to very poor ESG practices locally.

The challenge with ESG is if the company is able to deal effectively with local stakeholders. Miners rely a lot on governments to do their part, e.g. to issue environmental licenses, or to spend money on the local community. In some instances, miners are actually seeing that it's the government that has to catch up with them in terms of ESG practices, not the other way around.

The final trend I see in the sector is technological changes, e.g. ore sorting and remote/automated mining. Ore sorting can have a significant impact on releasing plant capacity, while remote/automated mining will help keep costs under control. On the exploration side there are some interesting developments, e.g. the use of drones to run geophysics lines. Moreover, increased processing power means that the type of 3D seismic technology that the oil industry has been using can be used in hard rock applications to identify structural trends.

All in all there are a lot of positive changes taking place in the industry.

Ronald Stöferle:
I have a follow up question regarding ESG: there seem to be new laws coming into effect in 2020 which will make it harder for traditional investors to allocate capital into the resource space. Will this make an impact on the sector?

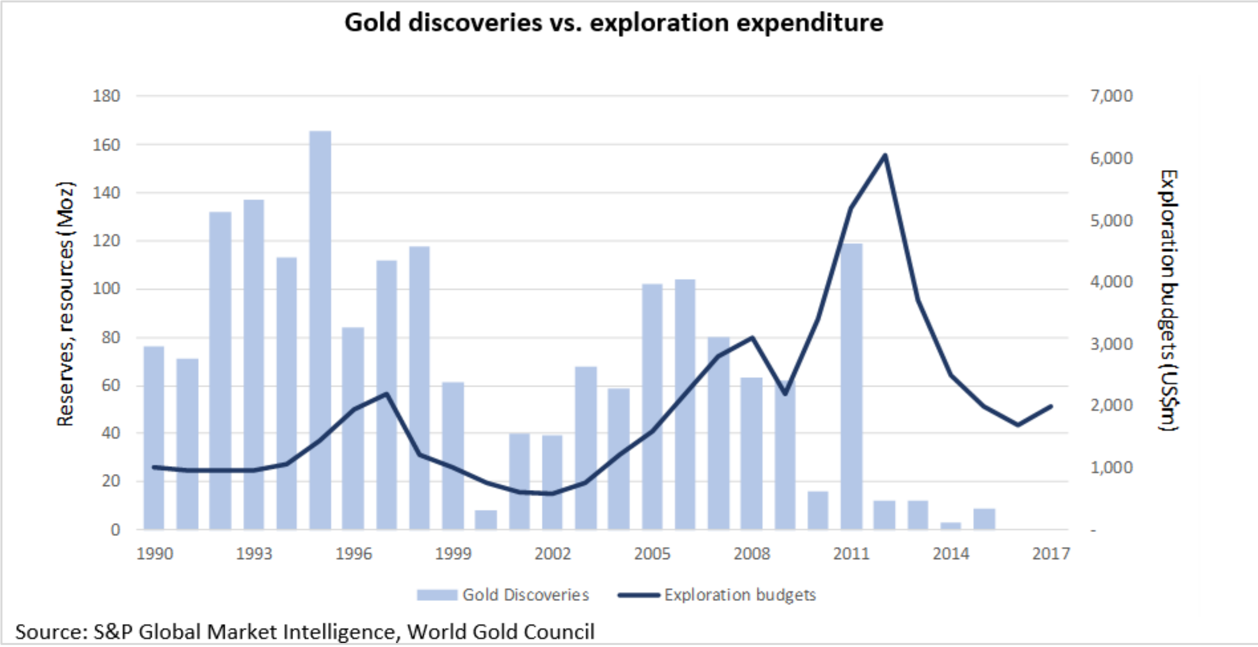
Mark Burridge:
I think companies are already moving towards ESG. We don't subscribe to the belief that investors won't be able to invest in the industry. But we believe miners are going to need to meet better defined sustainability criteria. The whole sector will not be un-investible, but the companies that don't update their ESG practices might be. At Baker Steel we are already working on a template that will allow us to avoid the companies that don't maintain the best ESG standards.

Ronald Stöferle:
Thank you very much, Mark. Heinz, would you like to jump in with your thoughts on the mining space?

Heinz Blasnik:
After the severe bear market we have gone through, companies are focused on allocating capital efficiently, as opposed to growing at any cost. When the gold price starts rising it will be the sweet spot to invest in gold companies. We already saw it in 2016 when the gold mining index rose by 200% in six months, while the gold price did not move that much. Naturally, I don't know when it will start. Lately gold mining shares have been rising slowly, in fits and starts. However, this is usually not how a bull market starts. They usually rise very quickly early on. Right now I believe we are still in the consolidation phase after the bear market.

And I think management teams will keep focusing on shareholder value and allocating capital intelligently because it's difficult to get funding these days as a result of the bearish sentiment. Consequently, companies are using alternative sources of funding, e.g. entering into streaming and royalty deals. Personally, I'm not a huge fan of those deals because I believe it removes some of the potential upside, however I understand that they need to do it.

And currently the exploration companies are selling for very cheap. The mid and large tier producers will have to replace their depleting assets at some point, and I think they will acquire junior exploration companies.



Source: Baker Steel

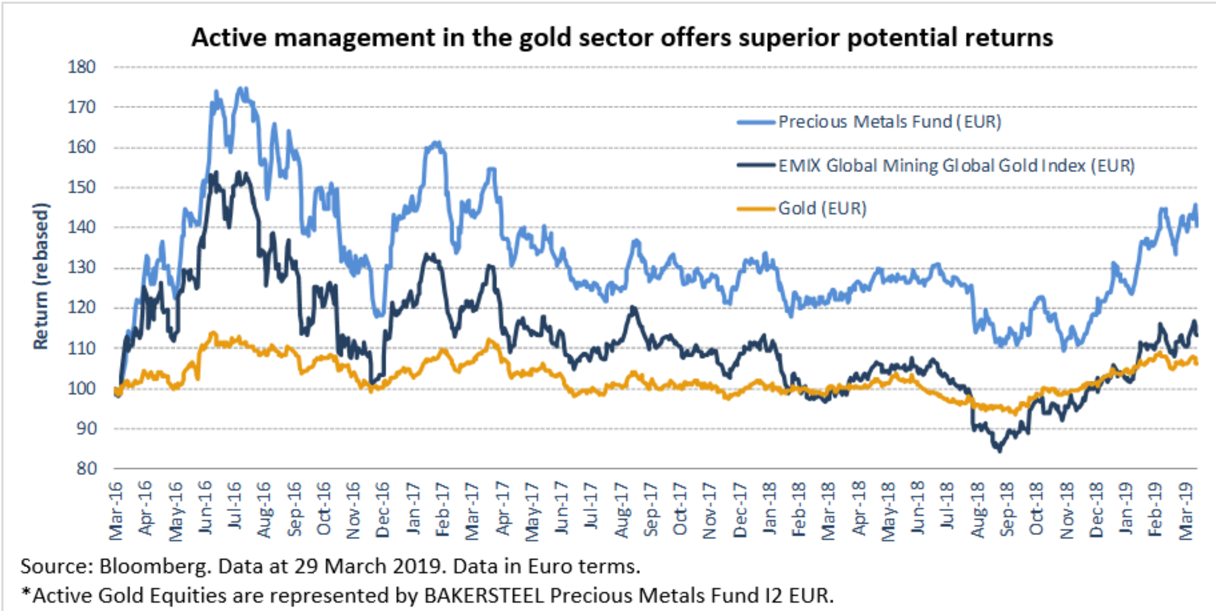
Ronald Stöferle:
Thank you, Heinz.

Mark, could you explain your investment style at Baker Steel and what differentiates it from other funds? And could you also let us know about what type of mining companies you are currently looking at?

Mark Burridge:
Our objective is to produce superior returns relative to the sector, under all market conditions, without taking on more risk. And we specifically aim to construct a portfolio that will offer upside potential of 30%-50% without an increase in the gold price.

In this industry, funds usually invest in one of two ways: either in more risky junior miners that offer higher returns over the long term, but also higher volatility; or they tend to track the index and have lower volatility, but also lower returns. However, as an investor you want to sit above that line (i.e. achieve a higher Sharpe ratio). And we sit well above that line.

Baker Steel Performance (blue line)



Source: Baker Steel

The reason why we are able to do that is firstly because the team here consists of experienced industry veterans who do the research themselves. We don't outsource it to third parties. We personally build the models, we visit the management teams, we visit the mines etc. Secondly, we run a concentrated portfolio with around 30-35 names and we focus on the mid to large cap producing companies. We also have a proprietary tool that helps us generate NAVs for the companies in our universe on a consistent basis. And we look at companies in terms of ounces; we are interested in how many ounces a company can return relative to how much they produce, and relative to how much we invest. If not, you are betting on exploration or a rise in the gold price. We are diversified across the world and we won't invest too much in risky jurisdictions. If we do invest in risky jurisdictions we use a higher discount rate.

We invest in the $250m to $15bn market cap companies. Our largest position is Barrick, but we may also very selectively invest in emerging producers. We do also invest in exploration, but in the mid-tier space where the established operating companies have exploration programs where they will be able to bring discoveries to visible value. Kirkland Lake is an example of that where the company has turned around due to high grade discoveries.

We have also increased our exposure to the silver space recently. I would say that sums up our company and process.

Mark Valek:
Mark, thank you for explaining your investment process. When people invest in your fund, what level of return can they expect to get?

Mark Burridge:
We target upside potential of 30-50% over 3-5 years without an increase in the gold price. However, we do believe the gold price is going to recover. While we are not focused on generating beta, we are focused on generating alpha and that can actually give us more beta to rising gold price and less beta to falling gold price! Over the next few years we hope to see a continuation of the capital discipline, cost control, and sensible mergers and acquisitions that we have seen companies undertake recently. The more of these positive developments that we see, the better the miners will respond when the gold price starts increasing. I think the potential return for a selection of miners is substantial.

Ronald Stöferle:
Gentlemen, I think we'll end it there. Thank you very much for the interesting discussion, and thank you for taking the time.

Appendix: Permanent Members of our Advisory Board

Zac Bharucha

Zac began his career in finance at the investment bank Kleinwort Benson and later became an equity portfolio manager at Philipps and Drew Fund Management. He then moved to AMP Asset Management where he was responsible for managing more than GBP 1bn of institutional assets. Afterwards, he moved to M&G in London. Since 1998, he has developed absolute return strategies and specialized in equities and commodities. After 25 years in asset management, he retired from professional life in 2011 and wrote his first book about market timing.

Heinz Blasnik

Heinz is an independent trader and market analyst for the consulting firm Hedgefund Consultants Ltd, as well as an author on Austrian economic theory for the independent research house Asianomics in Hong Kong. Heinz also publishes the blog www.acting-man.com, on which he analyses developments in the financial markets and the economy from an Austrian School perspective.

James G. Rickards

Jim is the author of the international bestsellers *Currency Wars* and *The Death of Money: The coming collapse of the international monetary system*. He is portfolio manager at the West Shore Fund. During his career, Jim has held senior positions at Citibank, Long Term Capital Management and Caxton Associates.

Dr. Frank Shostak

Frank is chief economist at AAS Economics. He has over 35 years of experience as a market economist and central bank analyst. He holds a PhD, MA and BA honours from South African universities. He was professor of economics at the Witwatersrand University in Johannesburg. He is one of the world leaders in applied Austrian School of Economics and an adjunct scholar at the Mises Institute in the US.

Rahim Taghizadegan

Rahim is the founder and director of the institute for value based economics, an independent research institute in economical and philosophical issues in Vienna. He is bestselling author and a popular speaker internationally. Rahim studied Physics, Economics and Sociology in Vienna and Lausanne. He has worked in the fields of economics, space research and journalism. He has also taught at the University of Liechtenstein, the Vienna University of Economics and Business Administration and the Universität Halle an der Saale.

Ronald-Peter Stöferle, CMT

Ronni is partner of Incrementum AG and responsible for Research and Portfolio Management.

He studied Business Administration and Finance in the USA and at the Vienna University of Economics and Business Administration, and also gained work experience at the trading desk of a bank during his studies. Upon graduation, he joined the Research department of Erste Group, where he published his first "In Gold We Trust" report in 2007. Over the years, the Gold Report became one of the benchmark publications on gold, money, and inflation.

Since 2013 he has held the position as reader at scholarium in Vienna, and he also speaks at Wiener Börse Akademie (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book "Austrian School for Investors" and in 2018 "Die Nullzinsfalle" (The Zero Interest Rate Trap). Moreover, he is an advisor for Tudor Gold Corp. (TUD), a significant explorer in British Columbia's Golden Triangle.

Mark J. Valek, CAIA

Mark is partner of Incrementum AG and responsible for Portfolio Management and Research.

While working full time, Mark studied Business Administration at the Vienna University of Business Administration and has continuously worked in financial markets and asset management since 1999. Prior to the establishment of Incrementum AG, he was with Raiffeisen Capital Management for ten years, most recently as fund manager in the area of inflation protection and alternative investments. He gained entrepreneurial experience as co-founder of Philoro Edelmetalle GmbH.

Since 2013 he has held the position as reader at scholarium in Vienna, and he also speaks at Wiener Börse Akademie (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book "Austrian School for Investors" and in 2018 "Die Nullzinsfalle" (The Zero Interest Rate Trap).

About Incrementum AG

Incrementum AG is an independent investment and asset management company based in Liechtenstein. Independence and self-reliance are the cornerstones of our philosophy, which is why the four managing partners own 100% of the company. Prior to setting up Incrementum, we all worked in the investment and finance industry for years in places like Frankfurt, Madrid, Toronto, Geneva, Zurich, and Vienna.

We are very concerned about the economic developments in recent years, especially with respect to the global rise in debt and extreme monetary measures taken by central banks. We are reluctant to believe that the basis of today's economy, i.e. the uncovered credit money system, is sustainable. This means that particularly when it comes to investments, acting parties should look beyond the horizon of the current monetary system.

Cautionary note regarding forward-looking statements

THE INFORMATION CONTAINED IN THIS DOCUMENT HAS NOT BEEN INDEPENDENTLY VERIFIED AND NO REPRESENTATION OR WARRANTY EXPRESSED OR IMPLIED IS MADE AS TO, AND NO RELIANCE SHOULD BE PLACED ON, THE FAIRNESS, ACCURACY, COMPLETENESS OR CORRECTNESS OF THIS INFORMATION OR OPINIONS CONTAINED HEREIN.

CERTAIN STATEMENTS CONTAINED IN THIS DOCUMENT MAY BE STATEMENTS OF FUTURE EXPECTATIONS AND OTHER FORWARD-LOOKING STATEMENTS THAT ARE BASED ON MANAGEMENT'S CURRENT VIEWS AND ASSUMPTIONS AND INVOLVE KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS, PERFORMANCE OR EVENTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN SUCH STATEMENTS.

NONE OF INCREMENTUM AG OR ANY OF ITS AFFILIATES, ADVISORS OR REPRESENTATIVES SHALL HAVE ANY LIABILITY WHATSOEVER (IN NEGLIGENCE OR OTHERWISE) FOR ANY LOSS HOWSOEVER ARISING FROM ANY USE OF THIS DOCUMENT OR ITS CONTENT OR OTHERWISE ARISING IN CONNECTION WITH THIS DOCUMENT.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION TO PURCHASE OR SUBSCRIBE FOR ANY SHARES AND NEITHER IT NOR ANY PART OF IT SHALLFORM THE BASIS OF OR BE RELIED UPON IN CONNECTION WITH ANY CONTRACT OR COMMITMENT WHATSOEVER.