Dear Shareholder, 6th April 2007

March 31st brought an end to what was a dull and very indecisive quarter so we are pleased to report that Phoenix did manage to eke out a small gain in NAV of 5.23%. Gold bullion itself managed a similar increase, rising from $636.70 to $661.10 for a gain of 3.8% but the gold mines index (the HUI) remained rather lacklustre slipping less than a point to 337.66. That we managed to outperform the index brings us some satisfaction but what is very encouraging is the fact that the gold shares in general are attracting very little participation from the public and indeed most of the newsletter-writers who cover the gold stocks are, at best, cautious. This does not gel with the technical position of gold and gold shares where we feel that the market is preparing itself for another strong move to the upside. As we will show in the chart below, there is considerable similarity to the technical situation we saw earlier in August 2005, just before gold soared from $430 to $730. After a sideways consolidation, that had lasted almost nine months, gold broke above the trendline, pulled back to "test the breakout", and then rose 70% over the following eight months. We feel now that gold has completed the consolidation of that large move over the nine months that followed the spike to $730, has broken out of the consolidation pattern, retested that breakout, and is now beginning to rise again.

Normally the stock market presages any moves in the bullion market and the gold shares therefore should have been telling a similar story a little earlier. As the chart (below) of the HUI Index shows, the gold stocks appear to have put in a low of 280 on that Index during October of last year and have been climbing the proverbial wall of worry ever since. Again, the pattern of sideways consolidation over nine months seems very similar to the 2005 experience, prior to the large rise in the index from 180 to 400.

So we are very comfortable with the technical situation of the bullion market and of the gold stocks and feel that these are reinforced by improving fundamentals. The reverse yield gap in the US Dollar (where short term interest rates are higher than the long term rates) has been a real restraint on the bullion price for the last two years but the short end (90 day T-Bills) has recently fallen below the yield on the 30 year bond and this should be very supportive for bullion. Any move by the Federal Reserve to accommodate the distressed mortgage market with greater liquidity at a time when inflation expectations are rising and putting downwards pressure on the long bond market will likely cause bullion prices to soar.

The gold stocks too are probably cheaper, in relation to the bullion price than they have ever been. At end February, the Senior Producers were estimated to be trading at a 5% discount to the Net Present Value of their reserves, extracted and processed, the Intermediate producers at a 20% premium and the Junior Producers at a 25% discount. To put this in perspective, the premia on all three categories of producer reached as high as 70% above NAV in 2002 and none of the three have traded at lower premia than the present levels since 2000. Consequently we believe that there is enormous scope for the gold mining shares to be re-rated to substantially higher levels as soon as the market is convinced that bullion prices are going higher.

The Phoenix Gold Fund, therefore, remains fully invested in both stocks and bullion.

Yours sincerely,

David Crichton Watt