

## **silberinfo Interview Zürcher Kantonal Bank**

By: silberinfo

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Hugo Stalder, Erich Meier & Stephan Müller, ZKB / Silver ETF  
gave silberinfo the following exclusive interview

### **silberinfo:**

What was the trigger to issue an ETF on Silver?

### **ZKB:**

After the successful issue of the ZKB Gold ETF (until now around CHF 600 Mio.) and because of the demand from institutional investors, it suggested itself that we position ourselves further in the area of the white precious metals ETFs, to offer our investors a real alternative to a direct investment.

Besides the fundamentals, which support an investment in precious metals as a longterm strategy, the ZKB ETFs on Gold, Silver, Platinum and Palladium offer an unique setup, which provides all institutional investors and high net worth individuals with an effective and innovative instrument to implement their commodity strategy.

### **silberinfo:**

Why should an investor in your opinion buy shares of an ETF instead of investing directly in physical silver?

### **ZKB:**

Besides the security aspects, where the Zurich Cantonal Bank with an AAA rating is leading amongst the Swiss banks because of the government guaranty, also fiscal aspects play a role in the consideration. As an owner of shares of the ZKB Silver ETF, you are fully invested in physical silver, without loosing the VAT of at the moment 7,6% on your acquisition price. Only when you ask for the delivery of the physical silver, you have to pay the VAT. Besides the full physical cover we guarantee you to buy back the shares at the NAV at any time or the delivery of the physical silver. So you don't have to care about questions of purchase, storage or insurance and you have a guaranteed liquid market for your investment at any time, because of the listing at the Swiss Stock Exchange SWX. The ZKB ETFs are regulated funds subject to the supervision of the Swiss Banking Commission and are also published as transparent funds in the Bundesanzeiger according to § 5 InvStG for our German Investors (Publication End of January 2008).

### **silberinfo:**

Is there a limited duration of the ETF and which yearly administration fees will be accumulated?

### **ZKB:**

The ZKB ETFs are funds by Swiss Law.(they are called ‚transparente Sondervermögen‘) and have an unlimited timeframe. The present administration fees are:

The higher fee for the ZKB Silver ETF can be explained with the higher physical volumes that need to be managed.

### **silberinfo:**

What about the deposits? Is your ETF 100% covered with physical Silver?

### **ZKB:**

All ZKB ETFs are with fully covered with the respective physical metal. Because of the fees that will be charged, a minimal part of the metals will be sold, respectively held in cash.

Hence it would be more precise to say, that the funds are fully covered after deduction of the fees. Enclosed please find excerpts of the audited annual respectively semi-annual reports of the ZKB Gold ETF per 09/30/06 respectively 03/31/07, which clarify this practice.

The limits for the fees that can be charged to the fund assets are defined by the ‚Guthaben auf Sicht‘ (Assets) and the ‚Verbindlichkeiten‘ (Liabilities).

### **silberinfo:**

We are curious and would like to tell our readers where the silver storage rooms are?

**ZKB:**

The ZKB allocates the assets on its vault facilities and depositories. For security reasons we can't give information on the allocations base and ask for your understanding.

**silberinfo:**

In which sizes of bullion bars do you store the silver?

**ZKB:**

All ZKB ETFs are covered with standard bullion bars, which have the following specifications:

As every bullion bar is unique because of its gross weight, its fineness, the producer etc., the net fine weight is used for accounting and delivery.

**silberinfo:**

Several sources are reporting a shortage on the market for physical silver. Does also the ZKB have problems acquiring the material?

**ZKB:**

Until now we haven't noticed any problems securing the physical silver on the market. If we need to order bigger amounts, it can occur, that the silver is available as semifinished products (pellets etc.), and that the bullion bars have yet to be cast. Normally, the delivery to the fund takes place in five business days.

But this doesn't matter for the delivery to the client, because in the fund, only standard bullion bars are held, that can be delivered promptly.

**silberinfo:**

Assumed, the demand for your ETF literally explodes, let's say there is a demand of 100 million ounces. Could you get and stock that physical silver without any problems?

**ZKB:**

With a quantity like that, we need to distinguish market capacity, fund setup and fabrication capacity.

Because the fund is designed as a so called 'Open End Fund' (only the redemption resp. the delivery must be guaranteed) and because it is based on forward pricing, the relevant NAV is not yet known at the time of subscription. It is important, to distinguish here, that the investors subscribe for a number of shares and not 'ounces'.

This means that the fund provides itself with the available physical resources in ounces for the amount X (value of the subscriptions in CHF) on the market. Only that much can be obtained, which is available according to the London Fixing.

If the market provided for the same amount X only half of the physical silver anymore, one has to decide as an investor, if one wants to get in on these conditions.

Since the fund has to guarantee the redemption / delivery at all times, but not the subscription of new shares, no investors will be discriminated, that are already invested in the ZKB Silver ETF. In simple words it can be said, that the setup of the ZKB Silver ETF always protects only the existing owners of the shares and the fund assets, and that new shares will be created only on transparent market conditions, for the purpose of not diluting the fund assets.

In the sense of your question about an explosive increase of demand: Quantities over 10 million ounces should be staggered over time and for example be bought on the market in quantities of no more than 0,5-1 million ounces. When delivering such quantities, the refineries usually need more time for smelting and casting the desired bullion bars.

**silberinfo:**

Can you name us the sources / refineries / countries, from which ZKB obtains the silver for the ETF?

**ZKB:**

We obtain our precious metals from the Clearing System of the banks. We haven't made any direct purchases from the producers yet.

**silberinfo:**

The Silver ETF of ZKB has been on the market for several weeks now. Are you satisfied with the development so far?

**ZKB:**

Since the listing on May 10 2007, the number of issued shares has tripled and the value of the fund assets has grown to 5 million ounces. We are basically very satisfied with the development of all ZKB ETFs.

**silberinfo:**

How do you see the further development of the price of silver? Could you imagine that the price high of the 1980ies will be reattained or even surmounted?

**ZKB:**

The further development of the price of silver will depend on one hand from the global industrial development, on the other hand from the monetary policy of the worldwide central banks.

The risk that the world economy weakens stronger than expected has continuously grown in the last months. Because of that, a short-term decrease of price wouldn't be surprising. We would however definitely use this possible decrease of the price as a buying opportunity. In the medium term and in the long term the industrialization of China and India (that leads to a massively higher silver consumption), as well as the again increasingly expansive monetary policy of the central banks lets us feel extremely positive for the price of silver. Accordingly we are convinced, that the highs of the 80ies will be surpassed. But this could take several years, as we anticipate a long term structural bull market.

**silberinfo:**

Is there a minimum investment to buy shares of your ETF?

**ZKB:**

One share of the ZKB Silver ETF equals the value of one standard bullion bar (minus management fee), which weighs around 30 kg. This was equal to CHF 14'200 or around EUR 8620 on 09/04/07.

**silberinfo:**

Who are you trying to address primarily? Institutional investors or retail investors?

**ZKB:**

The ZKB ETFs are addressing primarily institutional investors and Die ZKB ETFs richten sich primär an institutionelle Investoren und private clients with a high net worth. Basically these products are available for all clients that dispose of a high enough risk capability.

**silberinfo:**

Do you also invest in derivatives or ist his option out of question?

**ZKB:**

All ZKB ETFs invest only in the respective physical precious metal. The funds are not allowed to have an exposure via derivative financial instruments, lending or credit taking.

**silberinfo:**

Is it possible to short sell your Silver ETF?

**ZKB:**

The ZKB ETFs are not allowed to short sell; the fund assets mustn't be exposed to any leverage. However if you want to short sell your shares and you find a counter party that is willing to make this trade with you, this wouldn't touch the fund neither the assets of the fund.

**silberinfo:**

What would happen with the physical deposits, if the ZKB goes bankrupt? Is there a protection against default? If yes, what sum is it limited to?

**ZKB:**

Since the ZKB ETFs are funds by Swiss law, the fund assets are treated as a so called 'Sondervermögen', which doesn't fall under the bankruptcy assets. The assets of the fund are fully available to cover the entitlements of the investors.

**silberinfo:**

If an investor exits and chooses the delivery of the material, how will this take place, in which sizes and in what timeframe ist this possible?

**ZKB:**

1. The client gives his bank, which booked the ETF shares into his depository account, the instruction 'redemption for delivery in favor of client Cif.-Nr. ( ) etc.'
2. The client's bank forwards this instruction to the ZKB depository bank, which acknowledges the receipt of the instruction and initiates the redemption by debiting the fund.
3. The client's bank receives this receipt and can give it to its client as information shown about the effected redemption, respectively as base for the delivery of the physical precious metals.
4. The client or his representative now can receive its precious metals at the ZKB Headquarters with this receipt and after identity control, payment of VAT and the delivery fee on the spot.
5. If the client can't or doesn't want to appear in person, he has to authorize his bank representative.

The delivery is limited to standard bullion bars of 30 kg with the ZKB silver ETF. The net fine weight will be calculated to the client, and the surplus will be settled in cash. Standard bullion bars are normally always available. For the security of our clients though, we guarantee a delivery within 10 business days.

**silberinfo:**

Is there VAT to be paid on delivery, and how high ist his tax?

**ZKB:**

According to the previous answer, VAT has to be paid on delivery of the white precious metals. This presently amounts to 7,6% in Switzerland.

**silberinfo:**

Let's hypothetically assume that the whole stocks had to be delivered this way, would that pose problems?

**ZKB:**

Basically there wouldn't be any problems, but we would have to practice a staggered service for our clients at the delivery, for security reasons and to keep up the banking secret.

**silberinfo:**

An investor subscribes for a bigger number of shares, will the physical silver be ordered only afterwards, or is there a buffer?

**ZKB:**

Additionally to the answer to the question on the 'explosive demand' holds, that the fund, as a result of the subscriptions, stocks up on the market at the moment of the subscription (forwardpricing). As counterparty the

ZKB metals trading department helps, which prudently stocks up on the market for the metal needs of the whole bank. There are buffers at the ZKB metal trading department, which allow a stable pricing. The fund has always the guarantee of an exercise at 'Best Execution'.

**silberinfo:**

Which possibilities exist for German investors to acquire shares?

**ZKB:**

You can directly place an order at the Swiss Exchange SWX via your bank.

**silberinfo:**

We are interested in the present inventory. How many ounces are presently deposited?

**silberinfo:**

Can you confirm with a good conscience, that all the silver is deposited according to the subscribed shares?

**ZKB:**

Yes, we can!

**silberinfo:**

Is it possible that one time the fund will be closed, for example with a certain volume, or when there is simply not enough silver on the market anymore?

**ZKB:**

The Swiss law for collective investments allows a temporary delay of redemptions and subscriptions for the protection of the investors, if a valuation of the fund assets cannot be assured in the event of political problems or wars, etc.

As the fund will exist for an undefined time and as it is designed as an 'Open End Fund', in the case of a stop of delivery, subscriptions can be rejected. However the fund doesn't have to be closed to protect the investors by no means.

The fund administration and the depositary bank can basically apply by law with the banking commission to close resp. disband the fund. In this case, the orderly payout of the fund assets to the investors as well as the protection of the investors would be supervised by the banking commission and the auditing agency of the bank.

**silberinfo:**

What is your personal opinion for the silver market, what price do you regard as realistic for the next five years.

**ZKB:**

For the year 2012, we anticipate prices of silver between USD 30.- and USD 45.- per ounce. This ought not to be the end of the structural uptrend. In the long term we anticipate higher silver prices.

**silberinfo:**

About the Platinum and Palladium ETF, that you issued. There was a certain opposition to the Platinum ETF, some people were afraid, that a Platinum ETF will absorb from the market too much of this rare metal, which is strongly needed by the industry. What is your comment on that?

**ZKB:**

Until now the ZKB Platinum ETF is the fund with the smallest fund assets with only about 32'000 ounces. Its influence on the industry respectively on the pricing is neglectable so far. As there are already industrial clients invested in the ZKB Platinum ETF, that can ask for delivery of the physical platinum at every time, the ZKB ETF setup is not per se the problem in our opinion.

However it is a known secret, that the producers, respectively their shares get more competition through the ETFs. Investors now have the possibility, besides investing in the shares of the producers to build up an exposure to precious metals via ETFs.

**silberinfo:**

One South African Platinum producer even said, that it doesn't intend to deliver Platinum to you. Where do you get the Platinum from?

**ZKB:**

As we don't obtain precious metals directly from the producers anyway, this statement doesn't affect us. The whole Clearing System, all connected financial service providers would have to act in the sense of the statement, which is not very realistic in our view. The most of the platinum is covered with Impala Bars, so also the reality shows, that this statement was not very substantiated.

**silberinfo:**

The inventory of the Platinum ETF and also the Palladium ETF is still quite small. Is it because of a lack of demand from the side of the investors, or are there difficulties in obtaining these metals?

**ZKB:**

The ZKB Palladium ETF is with about 218'000 ounces already bigger than the ZKB Silver ETF or the ZKB Platinum ETF. There is no connection with the remittance in any way. As there has been almost no advertisement yet for the products, the current volume in all four ZKB ETFs of around CHF 820 million, or 6 million ounces respectively is quite respectable.

**silberinfo:**

Has ZKB plans for further commodity ETFs?

**ZKB:**

Since we have to treat all participants of the market the same way, we inform all of them at the same time. For this reason we can't give you any concrete statement and thank you for your understanding.

**silberinfo:**

We thank you for this interesting interview and wish you and your families all the best!

**ZKB:**

We thank you for your interest!