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# REASONS WHY SHORT-TERM MUNICIPAL BONDS MAKE SENSE NOW



We'll admit it upfront: Municipal bonds are not as sexy as common stock in biotech firms or airlines. Compared to many stocks' speedboat nature—hopping across the choppy surface, sending ripples far and wide—many have glided like sailboats on relatively calm waters, though not all have performed well.

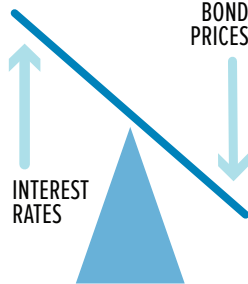
For this reason, among others, they play an important role in any serious investor's portfolio.



# Here are five reasons why investing in municipal bonds makes sense now more than ever:

## 1 Short-term, investment-grade municipal bonds have been less volatile in a climate of rising interest rates.

In June 2017, the Federal Reserve raised interest rates for the second time this year. Even though they were lifted only 0.25 percent, it's important to be aware that when rates rise, bond prices fall. At first glance, this inverse relationship might seem illogical, but it makes sense. If newly issued bonds carry a higher yield, the value of existing bonds with lower rates declines.



Let's imagine the Fed lifts rates even higher tomorrow. As you can see in this hypothetical example using a two-year, 10-year and 30-year Treasury, the farther out the maturity date and higher the rate hike, the more your security would be affected. Remember, these are Treasuries—which, unlike munis, are backed by the full faith and credit of the U.S. government—but munis could be similarly affected. What this indicates is that investors should take advantage of short- and intermediate-term bonds, which are less sensitive to rate increases than longer-term bonds whose maturities are further out.

Potential Interest Rate Increase of...	Potential Price Movement		
	2-Year Treasury	10-Year Treasury	30-Year Treasury
0.25%	= -0.51%	-2.28%	-5.19%
0.50%	= -1.01%	-4.55%	-10.38%
1.00%	= -2.03%	-9.11%	-20.75%

Source: Bloomberg, U.S. Global Investors

## 2 Investment-grade munis have had a low risk of default.

Although past performance is no guarantee of future results, there's greater likelihood that an issuer won't default on its payment obligations the higher its rating and the shorter its maturity. Even when you factor in Detroit's high-profile bankruptcy, the chances of a municipality defaulting in 2014 were a very slim 0.17 percent. Out of more than 20,500 bonds

in the S&P Municipal Bond Index, only 35 failed to meet their payment obligations.

## 3 Municipal bonds are tax-free at the federal level.

Munis are typically exempt from federal income taxes and often from state and local income taxation as well. They can also help investors "Obamacare-proof" their interest from the 3.8 percent Affordable Care Act (ACA) tax on investment income (applicable to those who make more than \$200,000 in taxable income per year).

## 4 Munis help diversify your portfolio.

It's prudent to have a diversified portfolio of both equity and debt securities, not to mention cash and commodities. Stocks can offer you growth and capital gains while bonds provide income. They can also help protect your assets during more volatile times.

Even within the bond allocation of your portfolio, it's important to diversify the types of debt securities. Our Near-Term Tax Free Fund (NEARX) holds a wide range of high-quality municipal bonds, from school districts to transportation to utilities.

## 5 Municipal bonds help make America strong.

One of the most compelling reasons to invest in investment-grade munis is that they help state and local governments build, repair and improve essential services.

Below you can see what some of the largest bond issuances are earmarked for. Without exception, the revenue that bonds generate goes toward services that make America's states, counties and cities attractive places to live, work and raise families.

Bonds do precisely what they're designed to do, namely, fund projects such as hospitals and roads that benefit citizens of all walks of life.

### Municipal Bond Issuances for the Top 5 Largest Infrastructure Purposes



Schools  
\$514.1 Billion



Hospitals  
\$287.9 Billion



Water and Sewer Facilities  
\$257.9 Billion



Roads  
\$178.0 Billion



Public Power Utilities  
\$147.0 Billion



## TAKE A LOOK AT NEARX



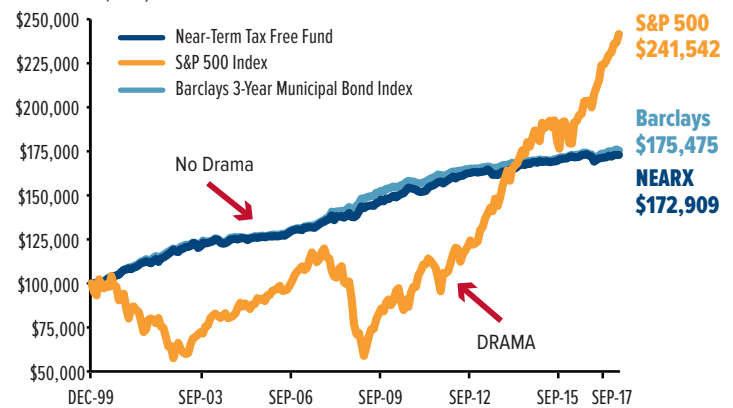
Our Near-Term Tax Free Fund has received a four-star overall rating from Morningstar, among 171 Municipal National Short-Term funds as of 9/30/2017, based on risk-adjusted returns.\* The turnover of NEARX is very low, and it has performed well against its peers. Additionally, the fund seeks preservation of capital and its net asset value (NAV) has historically demonstrated minimal fluctuation in its share price, floating in the \$2 range.

As you can see in the chart, NEARX has a history of modest growth over the years, including times of extreme market downturns. It took nearly a decade and a half for the S&P 500 to surpass NEARX using a hypothetical \$100,000 investment back in 2000.

Naturally, past performance doesn't guarantee future results, and you shouldn't reasonably expect the fund to keep pace with an index of equity securities like the S&P 500 over the next 10, 15 and 20 years. However, NEARX has historically shown a greater likelihood of dodging the dramatic swings the equity market has often experienced in times of uncommonly high volatility, such as we saw in the first decade of the century.

### Near-Term Tax Free Fund vs. S&P 500 Index

Growth of \$100,000 from 12/31/1999 to 09/30/2017



Past performance doesn't guarantee future results. Source: Bloomberg, U.S. Global Investors

## NEARX has been an emotionally stable, no drama fund.

To request additional information about NEARX, visit [www.usfunds.com/Explore-NEARX](http://www.usfunds.com/Explore-NEARX)

### Total Annualized Returns as of 9/30/2017

	One-Year	Five-Year	Ten-Year	Gross Expense Ratio
Near-Term Tax Free Fund (NEARX)	0.32%	1.25%	2.55%	0.97%
S&P 500 Index	18.61%	14.22%	7.44%	n/a
Barclays 3-Year Municipal Bond Index	1.22%	1.22%	2.62%	n/a

Expense ratios as stated in the most recent prospectus. The Adviser of the Near-Term Tax Free Fund has contractually limited, through April 30, 2018, the total fund operating expenses (exclusive of acquired fund fees and expenses, extraordinary expenses, taxes, brokerage commissions and interest) to not exceed 0.45%. Total annual expenses after the waiver of 0.52% were 0.45%. Performance data quoted above is historical. Past performance is no guarantee of future results. Results reflect the reinvestment of dividends and other earnings. For a portion of periods, the fund had expense limitations, without which returns would have been lower. Current performance may be higher or lower than the performance data quoted. The principal value and investment return of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. Performance does not include the effect of any direct fees described in the fund's prospectus which, if applicable, would lower your total returns. Performance quoted for periods of one year or less is cumulative and not annualized. Obtain performance data current to the most recent month-end at [www.usfunds.com](http://www.usfunds.com) or 1-800-US-FUNDS.

The chart illustrates the performance of a hypothetical \$100,000 investment made in the fund during the depicted time frame. Figures include reinvestment of capital gains and dividends, but the performance does not include the effect of any direct fees described in the fund's prospectus which, if applicable, would lower your total returns. It is not possible to invest in an index.



U.S. Global Investors, Inc. is a boutique investment management firm specializing in actively managed equity and bond strategies, and has a longstanding history of expertise in gold and precious metals, natural resources and emerging markets. The company, headquartered in San Antonio, Texas, manages a family of no-load mutual funds across a range of asset classes. In addition, the company manages funds for international clients.

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*Please consider carefully a fund's investment objectives, risks, charges and expenses. For this and other important information, obtain a fund prospectus by visiting [www.usfunds.com](http://www.usfunds.com) or by calling 1-800-US-FUNDS (1-800-873-8637). Read it carefully before investing. Foreside Fund Services, LLC, Distributor. U.S. Global Investors is the investment adviser.*

\*Morningstar ratings for the Near-Term Tax Free Fund, based on risk-adjusted returns, in the Municipal National Short-term fund category, through 9/30/2017: four stars overall out of 171 funds, four stars for the three-year period out of 171 funds, four star for the five-year period out of 149 funds, four stars for the 10-year period out of 92 funds. Morningstar Ratings are based on risk-adjusted return. The Morningstar Rating for a fund is derived from a weighted-average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics. Past performance does not guarantee future results. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.)

Bond funds are subject to interest-rate risk; their value declines as interest rates rise. Though the Near-Term Tax Free Fund seeks minimal fluctuations in share price, it is subject to the risk that the credit quality of a portfolio holding could decline, as well as risk related to changes in the economic conditions of a state, region or issuer. These risks could cause the fund's share price to decline. Tax-exempt income is federal income tax free. A portion of this income may be subject to state and local taxes and at times the alternative minimum tax. The Near-Term Tax Free Fund may invest up to 20% of its assets in securities that pay taxable interest. Income or fund distributions attributable to capital gains are usually subject to both state and federal income taxes. Diversification does not protect an investor from market risks and does not assure a profit.

The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies. The S&P Municipal Bond Index is a broad, comprehensive, market value-weighted index. All bonds in the index are exempt from U.S. federal income taxes or subject to the alternative minimum tax (AMT). 17-376