



Shareholder Report

2012 Vol. 2

An aerial photograph of a massive cable-stayed bridge under construction in a deep, rugged canyon. The bridge spans a wide, turquoise river. The surrounding rock walls are steep and reddish-brown. A winding road is visible in the foreground, and several construction cranes and support structures are visible on the bridge deck.

BREATHTAKING
THERE'S NO PLACE LIKE AMERICA



8 Tremendous demand for Apple's newest devices helped the company become the largest in the world by stock-market value. Find out why this tech stock's growth means you should add global resources to your portfolio.

London, United Kingdom



About the Cover:

Breathtaking infrastructure now links Phoenix and Vegas with a 2,000 foot long bridge that arches over the Colorado River. Under construction in this photo, it's the U.S.'s first concrete-steel composite arch bridge and named after decorated Korean War veteran and governor of Nevada Mike O'Callaghan, and Pat Tillman, who gave up a multi-million dollar football career to fight in Afghanistan where he was killed by friendly fire.

Correction: The cover in the last issue featured Ceramic House by Wang Shu, not Five Scattered Houses as was stated.



Letter from the CEO

The U.S. ranks high on the Better Life Index and it's affordable—there's no place like it.

3



Turkey's Hidden Wealth

A country's attempts to measure its wealth in gold.

12



Alexander Green on American Exceptionalism

No other country cultivates, celebrates and rewards success quite like the U.S.A.

6



Minute with the Manager

John Derrick talks municipal bonds.

14



Outsized Outsourcing Opportunity?

The Philippines' new business venture.

7



www.usfunds.com

The arrow inside means you can find expanded coverage online.

We want to hear from you. Send your questions, comments or suggestions for the Shareholder Report to editor@usfunds.com. For account information, call **1-800-US-FUNDS (1-800-873-8637)** or email shsvc@usfunds.com.

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 or by calling 1-800-US-FUNDS (1-800-873-8637). Read it carefully before investing. Distributed by U.S. Global Brokerage, Inc.

All opinions expressed and data provided are subject to change without notice. Some of these opinions may not be appropriate to every investor. The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies. The following securities mentioned in this issue were held by one or more of U.S. Global Investors Funds as of 6/30/2012: Apple, Inc., AT&T, Intel, Sprint, Verizon. 12-336

There's No Place Like America

A conference with CEOs from around the globe recently brought me to Europe—the center of Western Civilization, the cradle of democracy, innovation and creativity, and the crux of today's debt crisis.



Frank Holmes, CEO and Chief Investment Officer

Dear Shareholder,

In Siena's Palazzo Pubblico, I entered a room surrounded by beautifully painted frescoes where ancient leaders would meet for hours, debating policy decisions surrounded by visual cues of the effects of good and bad government.

One mural, "The Allegory of Good Government," personifies the virtues of justice, peace, virtue and wisdom, emphasizing the importance of a stable government. Two more frescos flank this painting, one depicting the effects of good government and another showing the effects of bad government.



Ambrogio Lorenzetti's fresco, "The Allegory of Good Government"

Surrounded by the historic beauty of Europe were tragic, disillusioned faces — only Shakespeareans could appreciate the contrast. If a picture is worth a thousand words, the chart on page 5 showing the rising unemployment among the youth might be more monumental than that. Particularly since the 2009 global crisis through April 2012, youth unemployment has skyrocketed in Spain, Greece, Portugal, Italy and Ireland.

Ian McAvity recently shared words of wisdom related to Europe's colossal challenges: "When times get tough, economic nationalism and protectionism tends to rise because it is always easier to blame someone else for self-inflicted problems." As Europe's debt problems resurfaced earlier this year, we see this protectionism play out as France elects its first socialist president in a quarter-century and Greek voters reject austerity. These are only two examples of this blame game.

I am thankful for the entrepreneurial heart that beats throughout America. As the election grows closer, I'm confident it'll beat louder to persuade the U.S. government to pursue thoughtful policies that embody essential American principles.

continued ➔

HOW MUCH GOODS COST AROUND THE WORLD

You Get a Lot for Your Money in the U.S.

\$ Pizza at Pizza Hut

\$15.00	\$21.36	\$23.50	\$24.80	\$27.54
				
				
New York	Paris	London	Tokyo	São Paulo


\$ Two Liter Bottle of Soft Drink

\$2.49	\$5.59	\$6.99	\$17.20	\$19.05
				
				
New York	Moscow	Tokyo	Frankfurt	São Paulo











\$ A Pair of Jeans

\$64.00	\$92.17	\$106.89	\$119.58	\$140.35
				
				
United States	Japan	Brazil	Germany	Australia

\$ A Gallon of Gas

\$3.71	\$3.82	\$5.87	\$7.12	\$8.33
				
				
United States	Russia	Australia	Brazil	France

\$ iPhone

\$649.00	\$656.05	\$845.14	\$1,054.82	\$1,099.82
				
				
United States	Hong Kong	Germany	Brazil	Russia

Source: Survey of selected goods and countries from Deutsche Bank AG/Hong Kong. Costs for two liters of soft drink served at Pizza Hut; in some cases proportionate pricing was used. Prices for iPhone and jeans found online. Gas prices from mytravelcost.com. Data is as of April 2012. • www.usfunds.com

One should not underestimate what it means to be American; you don't find a feeling quite like it outside the nation. In fact, emerging countries such as Singapore and China are now striving to replicate what my friend Alexander Green calls "American exceptionalism." I asked him to share his entire article with our readers. You can find it on page 6.

He says the U.S. is the world's economic superpower today not only because of geography, but, more importantly, the fact that entrepreneurs are free to innovate and create. Alex writes, "America cultivates, celebrates and rewards the habits that make men and women successful. It promises that anyone with ambition and grit can move up the economic ladder, that everyone has a chance to better his or her lot, regardless of circumstances."

Empowerment has created a national group of well-informed and very engaged individuals. On the Organisation for Economic Cooperation and Development (OECD) "Your Better Life Index" based on 11 diverse measures of well-being, the U.S. is highly ranked. Each element measures a feeling of satisfaction with life, including health, education, environment, personal security, life satisfaction, and work-life balance. **Here are a few of the highlights about the U.S.:**

- **The average income in the U.S. is nearly \$38,000 a year, considerably more than the OECD average income of about \$22,000.**
- **Almost 90 percent of adults in the U.S. have a high-school degree (or equivalent); the OECD average is 74 percent.**
- **Americans have a strong sense of community, as 92 percent know someone they could rely on in a time of need. The OECD average is 91 percent.**
- **Voter turnout was significantly higher than the world average: 90 percent of those registered participate in the U.S. political process, compared to 73 percent for the rest of the world.**
- **American households spend an average of only 20 percent of net disposable income on rent/home loans, gas, electricity, water, furnishings or repairs. The OECD average is 22 percent.**

While a 2 percent difference in household spending isn't striking, pennies add up. In a Deutsche Bank survey of how much a variety of goods cost around the world, the research firm found that New York was found to be significantly cheaper than other major financial hubs.

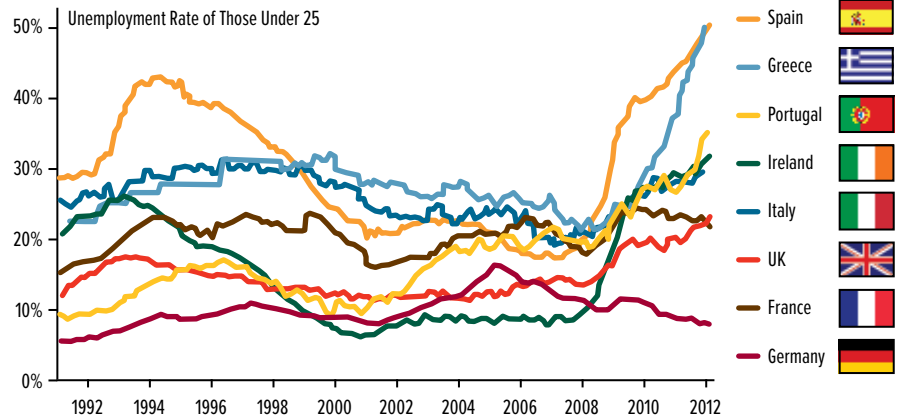
As shown on the infographic, if I wanted to buy Apple's iPhone in Europe, it'd be \$845; filling a car with a gallon of gas would cost twice what it costs in the U.S. A pair of Levis is nearly double the price than the same pair in New York City. On multiple measures, New York City offers more for your money compared to Paris, Sao Paolo or Tokyo.

Nonetheless, consumers on the other side of the world willingly line up to purchase American-made goods, even at a premium price.

Affordability is partially why 60 million international tourists choose to immerse themselves in American culture each year. While Canada and Mexico make up the majority of these visitors, tourists from Brazil and China have been visiting in record numbers, according to data from the U.S. International Trade Administration. In 2011, visitors from Brazil increased 26 percent to 1.5 million people. About 1 million Chinese visited the U.S. in 2011, which was an increase of 36 percent over the previous year.

Youth unemployment has skyrocketed in Spain, Greece, Portugal, Italy and Ireland.

European Youth Unemployment Skyrockets



Source: Thomson Reuters Datastream, Eurostat Reuters graphic/Scott Barber 4/2/2012

As the rising middle class in emerging markets gains more disposable income, they desire the same financial and social mobility that Americans take for granted. For that mobility, each visitor spends about \$4,000 on travel, clothes, food and attractions.

In his article, Alex Green describes the traits of a typical American: “an optimistic attitude, a can-do spirit, and an enthusiastic endorsement of the pursuit of happiness through individual initiative and self-reliance.” For many investors, a pursuit of happiness appears to exclude the ownership of American publicly traded companies. Although the country remains the largest economic powerhouse, today’s low participation in the U.S. stock market means that **many investors have missed out on some of the best days equities have experienced.**

For investors who continue to weigh the merits of stocks versus Treasuries, consider the fact that as of the end of May, about 430 stocks in the S&P 500 Index have an annualized dividend yield higher than the 10-year Treasury. It’s your chance to earn income while participating in the best days that may lie ahead of you in the market.

Sincerely,

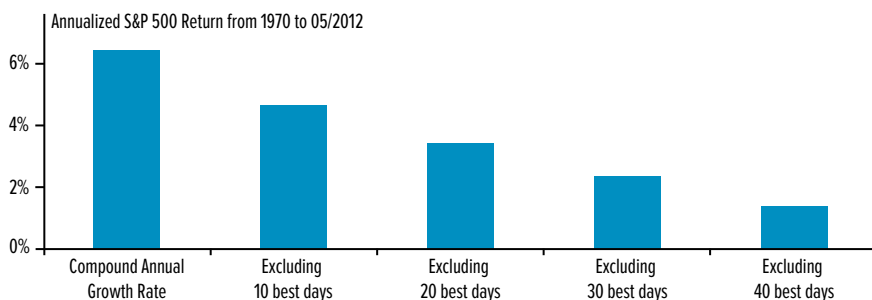
Frank Holmes

Frank Holmes
CEO and Chief Investment Officer
U.S. Global Investors, Inc.

www.usfunds.com

See a web version of the infographic and share with friends.

Missing the Best Days Can Diminish Returns



Source: BMO Capital Markets Investment Strategy, Bloomberg

From 1970 through May 2012, the S&P 500 Index has increased 6.4 percent; however, missing the 10 best days in the market reduces an investors’ return by nearly 2 percent, according to BMO Capital Markets.

DO YOU LIVE IN AN EXCEPTIONAL NATION?



Alexander Green,
Investment Director,
The Oxford Club

Original article published
April 13, 2012

Of all the arguments being made this political season, perhaps none is sillier than the left/right debate about American exceptionalism.

As every schoolchild knows, the United States has a unique history founded on principles of individual freedom. Our Declaration is a timeless statement of inherent rights, the proper purposes of government and the limits of political authority. Our core beliefs are enshrined in the Constitution and Bill of Rights, the longest-serving foundation of liberty in history.

Our economy produces almost a quarter of the world's wealth. The U.S. is the primary defender of the free world. Our nation plays an extraordinary role in world leadership. And the American people are the most hardworking, affluent and charitable in the world.

Yet *Washington Post* columnist Richard Cohen calls American exceptionalism a “myth” and insists that we should junk a phrase “that reeks of arrogance” and narcissism.

Political commentator Michael Kinsley similarly mocked the idea in an essay for Politico, calling the very notion a “conceit.”

Love of homeland is universal, of course. Yet the English writer Alexis de Tocqueville observed something distinctly different about us as far back as the 1830s. Americans pursue their economic interests with passion, he noted, but also enthusiastically form associations to take up public affairs and tend to the needs of their communities.

As social scientist Charles Murray writes, “Historically, Americans have been different as a people, even peculiar, and everyone around the world has recognized it. I’m thinking of qualities such as American optimism even when there doesn’t seem to be any good reason for it. That’s quite uncommon among the peoples of the world. There is the striking lack of class envy in America — by and large, Americans celebrate others’ success instead of resenting it. And then there is perhaps the most important symptom of all, the signature of American exceptionalism — the assumption by most Americans that they are in control of their own destinies. It is hard to think of a more inspiring quality for a population to possess, and the American population still possesses it to an astonishing degree. No other country comes close.”

Our nation’s growth and prosperity has been extraordinary, too. How did our small republican experiment transform and dominate global culture and society? Geography played a big role. Buffered by two oceans and a rugged frontier, we had plenty of cheap land and vast natural resources.

Entrepreneurs were given free license to innovate and create. Profit was never something to apologize for. Rather it was viewed as proof that the businessman offered customers something more valuable than the material wealth they traded.

America is not just a nation, but an ideal. We often fall short of it, but we keep striving to fulfill that vision, to embody that founding creed of liberty and equality.

More than two centuries after the American Revolution, the principles proclaimed in the Declaration of Independence and promulgated by the Constitution still define us as a nation. These permanent truths are not just for us but, as Abraham Lincoln said, “applicable to all men and all times.”

I’m not suggesting that other nations don’t have proud histories, unique traditions or beautiful cultures. I am delighted when I get a chance to visit Vancouver or Buenos Aires, not to mention Rome or Paris. There’s a lot to love about day-to-day life in other countries.

But people around the globe don’t talk about the French Dream. Or the Chinese Dream. Only one nation is universally recognized as the Land of Opportunity. Only one country attracts more students, more immigrants, and more investment capital than any other.

America cultivates, celebrates and rewards the habits that make men and women successful. It promises that anyone with ambition and grit can move up the economic ladder, that everyone has a chance to better his or her lot, regardless of circumstances.

The notion that America is something very special is not, as some would argue, just a crude strain of patriotism. The United States embodies timeless ideals, an optimistic attitude, a can-do spirit, and an enthusiastic endorsement of the pursuit of happiness through individual initiative and self-reliance.

In this sense — among others — we are truly an exceptional nation. ■

OUTSIZED OUTSOURCING OPPORTUNITY?

It's no surprise the NBC show, "Outsourced" was set in India—in 2011, revenues for the country's outsourcing and information technology industries reached \$100 billion, according to The New York Times. However, if the now-cancelled show gets remade in the future, it may take place in the Philippines.



Manila Bay, Philippines

Getting workers to stay on the Philippines' native soil has been the challenge for a country that already has the 15th largest labor force in the world. Among a population of 104 million, nearly 40 million are in the workforce.

When jobs can't be found, thousands leave their home country to look for work, sending money back to their families left behind. These overseas remittances have historically added up to about 10 percent of the country's GDP growth.

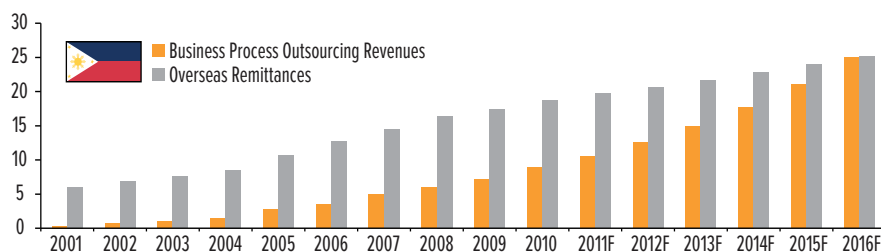
In the U.S. alone, the Filipino population grew by nearly 40 percent over the past decade, according to the 2010 census. More than 2.5 million Filipinos live in the U.S., with the largest concentration in California.

The Philippines is looking to reverse this trend by rapidly expanding its business process outsourcing sector. The same services that made India's outsourcing industry successful — call centers, IT outsourcing and engineering services — have been booming in the Philippines in recent years. Right now, about 638,000 people work in the BPO industry, and this should continue to grow, based on projected revenues, according to data from CLSA.

Whereas revenues coming from overseas remittances are much higher than the revenues generated from the outsourcing sector today, outsourcing revenues are growing three times faster, says CLSA. Each is projected to provide \$25 billion in revenue by 2016.

Outsourcing Growing Faster than Overseas Remittances

In billions of dollars



Source: CLSA Asia-Pacific Markets, BSP, Business Processing Association of the Philippines (BPAP)

CLSA finds that the Philippines is “increasingly being established as the favored service center, along with India” for outsourcing. Multinational companies are choosing to be in both locations. Currently, 300 multinational businesses are involved in the outsourcing sector in the Philippines, says CLSA.

Attracting multinational companies will become easier now, as the cost of capital has recently been significantly reduced. In the past, the Philippines had “one of Asia’s highest cost of capital,” says CLSA. In late 2011, the real lending rate was 1.5 percent compared with the 10-year average of 4.2 percent. According to CLSA, bank lending increased 19 percent year-over-year in July 2011, “the fastest growth since March 2009.”

While the country was the best performer last year among the emerging markets that we track and one of the few that ended the year in positive territory, we believe there’s still room to grow for the Philippines. ■

www.usfunds.com

Learn about developing markets by reading Frank's blog today.

Apple is a “Want” Global Resources are Needs





The world's developed a passion for Apple, with fans lining up for the latest and greatest gadgets. Research shows that investors should also be in queue for the natural resources necessary to manufacture, charge and power the devices.

A tech company like Apple caters to our wants, but global resources supply our needs.



Earlier this year, Apple was inducted into a very elite club of businesses when the company surpassed \$500 billion in market capitalization. Only Cisco, Exxon Mobil, General Electric, Intel and Microsoft have grown this big.

Apple's market capitalization has grown so significantly that J.P. Morgan declared the company a "sector unto itself." AAPL is now bigger than all of the companies in the telecom sector, all of the materials stocks, and all of the utilities companies combined. The company also generates more profit on an earnings before interest, taxes, depreciation and amortization (EBITDA) basis than any of those sectors.

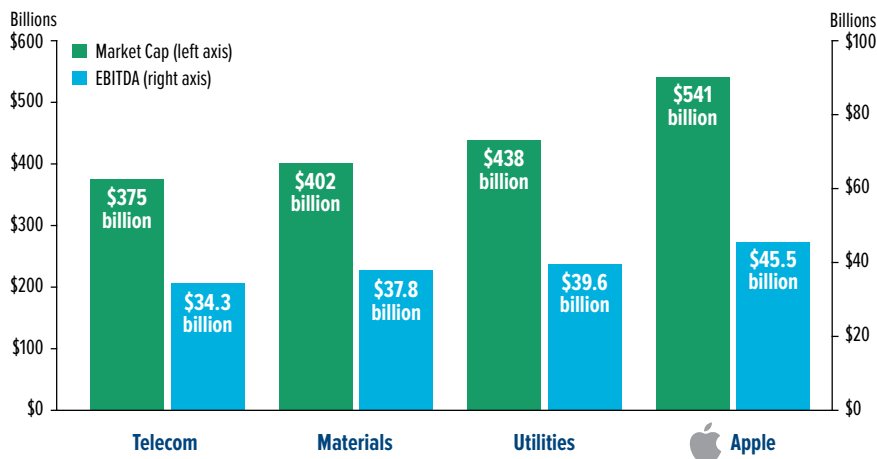
One analyst believes that Apple is poised to be the most profitable company ever. When Cisco, Intel and Microsoft crossed the half trillion in market cap, each had a dominant market share in major markets. Microsoft had 90 percent of the PC market, Cisco had more than 70 percent of the networking market, and Intel had 80 percent of the CPU market. In comparison, Apple only has 5 percent of the PC market and less than 10 percent of the mobile phone market.

There's no doubt Apple has quality products and is a well-run company — our funds have historically benefited from holding shares. As the stats on the previous page prove, people all over the world have rapidly become fans of Apple, and its "iProducts" are almost as common as toasters. A recent survey by CNBC found that half of all U.S. households own at least one Apple device! If a household includes children, that number jumps to 60 percent.

What investors need to keep in mind is that Apple's products cater to our wants. The survey above as well as record sales have proven that millions of consumers want an iPad and iPhone.

However, global resources supply our needs. Every single person in the world needs farms to grow our food; we need oil, natural gas and coal companies to fuel our cities. We need to drive to work and school each day, and we need to keep our house warm in the winter and cool in the summer. And so do the other 7 billion people on the planet.

Apple's Market Cap and Profitability is Greater than Telecom, Materials, Utilities



Source: Bloomberg, Standard & Poors as of 5/31/12

And, for those of us gadget lovers, we need global resources, especially utilities, materials and energy, to keep producing and powering our Apple and other devices.

In the U.S., Apple relies on wireless networks AT&T, Sprint and Verizon to distribute millions of iPhones to their customers. Consumers flocked to the iPhone after the exclusivity agreement between AT&T and Apple ended, with Verizon's market share exploding. In 2011, Sprint boldly agreed to purchase 30 million Apple phones over the next four years, which provides an indication of how optimistic the company is about its iPhone sales.

In China, China Unicom was formerly the country's only official iPhone carrier, and now an additional player has just entered the field. The third-largest telecommunications company in the country, China Telecom, just launched the iPhone, and by all reports, "enthusiasm is high and competition appears good for the market," says Forbes.

Beyond communications and wireless businesses, materials companies worldwide benefit from supplying the glass, batteries, wiring and metals for Apple's products. *The New York Times* points out that 700,000 people outside the U.S. work for Apple's contractors, engineering, building and assembling its products. Semiconductors in the iPhone 4 and 4S are manufactured in Austin, Texas; the iPhone's glass is made in a Corning factory in Kentucky.

In addition, energy companies keep millions of iPhones, iPads and iPods charged.

With rising wealth among emerging markets, we expect millions of new customers will be lining



up to purchase their first tech devices and Apple products over the coming years. Meanwhile, consumers in the developed world will seek to upgrade to newer versions. We believe this demand will fuel not only Apple, but also its building blocks of global resources.

How To Participate in this Growth

Apple stock has certainly paid off for investors over the past decade, but we believe there are other ways to benefit from tech's success.

If you invest in a fund that replicates the S&P 500 Index, you only have about a 15 percent allocation to energy and materials. This seems insignificant compared to the tremendous long-term needs from emerging countries. In comparison, in 1980, before the most populous countries in the world, China and India, had a global footprint, energy and materials companies comprised a third of the index.

We believe investors should make sure they have an appropriate allocation to natural resources stocks to leverage the growth of global services and products that people need. ■

➔ www.usfunds.com

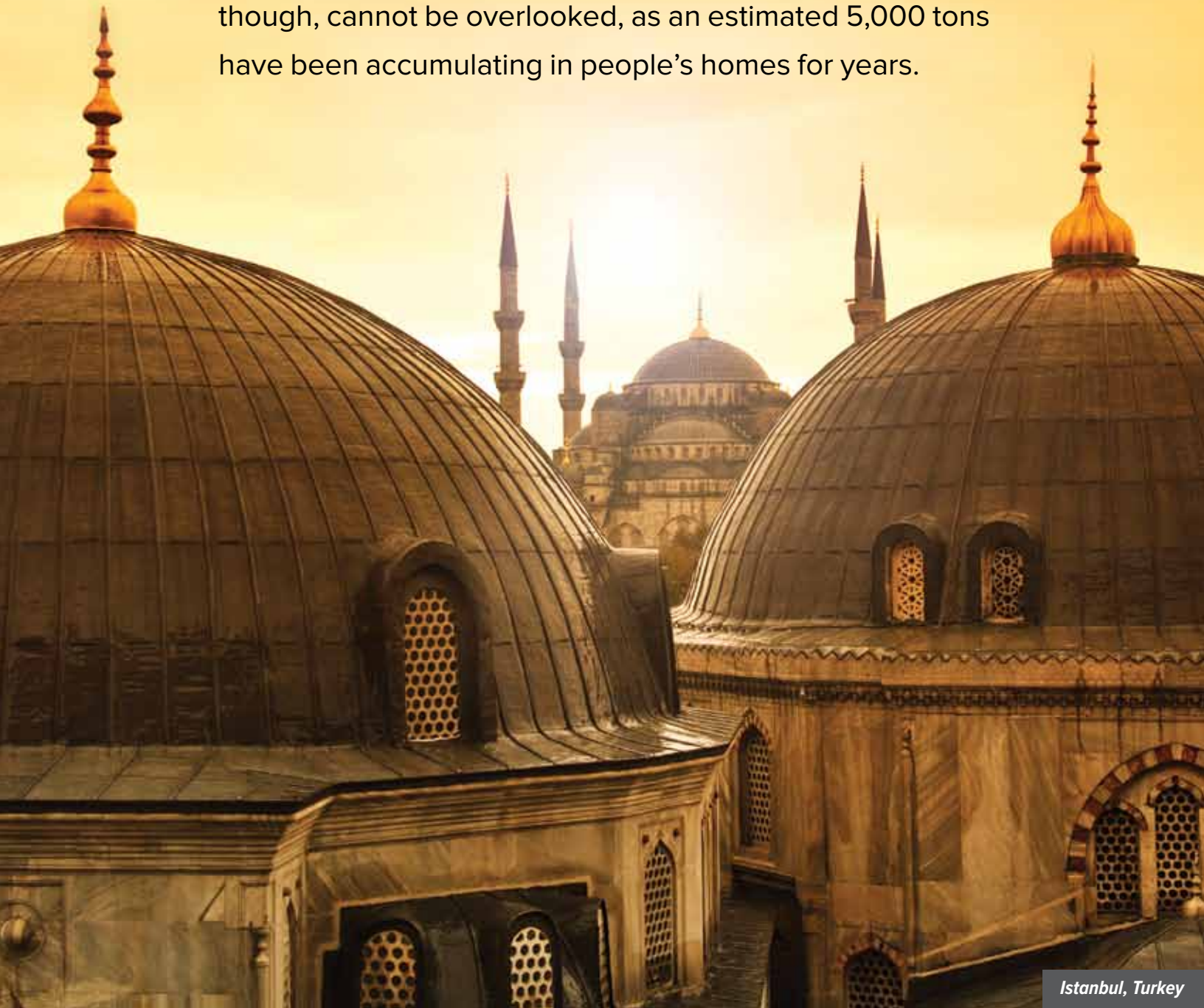
Read the article from *Financial Planning* that shows how natural resources strengthen a balanced portfolio.



Every single person in the world needs farms to grow our food; we need oil, natural gas and coal companies to fuel our cities. We need to drive to work and school each day, and we need to cool our house in the summer. So do the other 7 billion people on the planet.

TURKEY'S GOLDEN WEALTH

WHEN WE TALK ABOUT THE LOVE TRADE, India and China are frequently discussed since the two countries have been dominating world jewelry demand. Turkey's love for gold, though, cannot be overlooked, as an estimated 5,000 tons have been accumulating in people's homes for years.



Turkey is now offering incentives for people to store their gold in the bank instead. By acknowledging the hidden wealth of the Eastern European nation, this move will allow banks to lend more money and ultimately improve the country's current account balance.

In November 2011, ahead of the changes considered under Basel III, Turkey's central bank said it would allow lenders to hold up to 10 percent of local-currency reserves in gold, according to the *Wall Street Journal*. As of March 2012, the central bank increased the percentage to 20 percent.

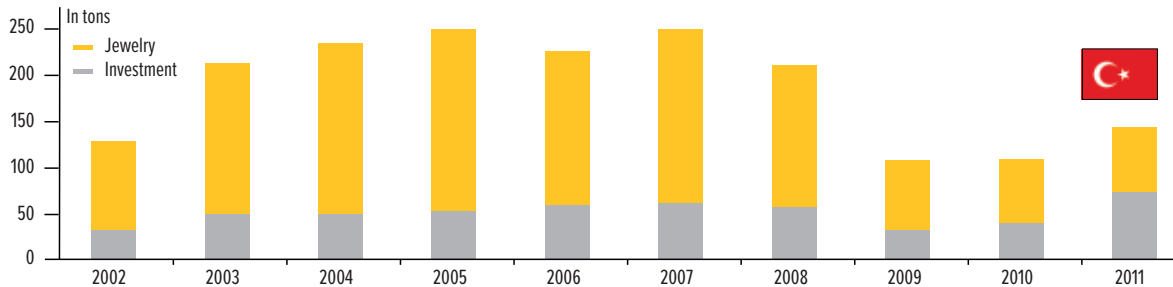
Now, retail investors can not only hold their gold jewelry, bars and coins in an account at a bank, but can also accumulate gold in accounts, with tax-free 24-carat gold transactions. The World Gold Council (WGC) says people can choose among gold deposit accounts, gold checks, gold credits, gold

transfers, gold gram accounts and protected capital gold backed gold funds. Now, total gold deposits in the banking sector have reached an estimated \$7.69 billion, according to the WGC.

I discussed last June how gold was being considered as a Tier 1 asset by the Basel Committee on Banking Supervision. The international banking supervisory committee helps ensure global banks have adequate capital, and the yellow metal was historically considered a Tier 3 asset with a net stable funding ratio of 50 percent. This means that banks' gold holdings have historically been discounted by 50 percent of their current market value. I said at the time that upgrading gold to Tier 1 encourages banks to increase gold's share of their reserves.

By making this change last year, Turkey is light-years ahead of other central banks around the world since the changes do not go into effect until January 2013.

Turkish Gold Demand Historically Came From Jewelry



Source: Thomson Reuters GFMS, LBMA, Thomson Reuters Datastream, World Gold Council



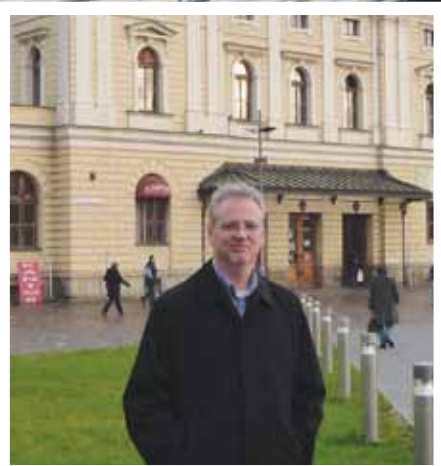
TURKS' LOVE TRADE DATES BACK MORE THAN 5,000 YEARS, WHEN GOLD JEWELRY WAS PRODUCED IN ANATOLIA.

That city still holds the world's oldest jewelry art.

Istanbul is the center for the production of gold jewelry and is also home to the Grand Bazaar which was constructed in 1461 and remains "the heart of the Turkish gold jewelry sector," says the WGC.

Similar to India and China, Turks view the precious metal as both an adornment and a traditional form of saving. From a very young age, girls learn that gold is a wealth preservation asset, which helps explain why almost a quarter of those surveyed in Turkey today chose gold as their top investment choice, says the WGC.

MINUTE WITH THE MANAGER



Municipal bonds have historically been beneficial to both the issuer and the investor. Cities, counties, hospitals and utilities gain access to capital and bondholders receive tax-free income. As with all investments, it's not a risk-free relationship as the bond landscape often fluctuates. With rumors of mounting bond defaults and fiscal challenges affecting

municipalities, we sat down with U.S. Global Investors' bond expert **John Derrick** to find out how he navigates the bond terrain for the Tax Free Fund (USUTX) and the Near-Term Tax Free Fund (NEARX).

A few years ago, it was predicted there would be a trend of municipal bond defaults. Has that happened?

It's been more than two years now since well-known banking analyst Meredith Whitney declared on 60 Minutes that there would be massive bond defaults across numerous municipalities. We were skeptical of this prediction at the time and have not seen this happen to date. In fact, municipal bonds are as resilient as they have historically been. A recent report from Moody's Investors Service found that defaults for rated municipal bonds remain extremely low, with only 71 defaults from 1970 to 2011. About 73 percent of those defaults occurred in the family affordable housing and not-for-profit health care sectors — only five were general obligation bond issues.

What do you think accounts for the difference?

General obligation bonds, such as school district bond issues, are backed by taxpayer dollars, and essential service revenue bonds, including water, sewer or electrical utility issues, are backed by water or sewer bills. We find that, in general, residents have continued to pay their bills, and cities generally pay their bond payments, while cutting expenses in other areas.

Moody's indicates that municipal issuers, such as cities or school districts, have a lot to lose when they default because it causes significant borrowing difficulties in the future and some issuers could face higher borrowing rates. It's kind of like the equivalent of an individual's credit rating — if you stop making payments or default on a loan, you could face higher borrowing costs in the future.

Further, issuers in the health care and housing sectors usually face competition and economic volatility in their local markets.

With any bond purchase, we believe investors should be aware of any factors that may affect an issuer's ability to pay.

Can you give us some examples of recent issues in the municipal market?

One extreme example is the city of Stockton in California, which is seeking bankruptcy. Stockton is the largest city in the nation to file Chapter 9, as the city was encumbered with rising retiree health-care costs, decreasing tax revenues and a high foreclosure rate.

On the positive side, two California cities are having success with improving their budgets while still paying debt service. In San Diego and San Jose, voters overwhelmingly approved cuts to retirement benefits for city workers. This action will help improve their financial situations while still paying debt service on outstanding bonds.

U.S. Global Investors offers two bond funds. How do they differ?

The Tax Free Fund (USUTX) invests in municipal bonds that generally have longer maturities and is focused on providing a higher level of tax-free income. The Near-Term Tax Free Fund (NEARX)

invests in municipal bonds with relatively short maturities of generally five years or less, seeking to provide tax-free monthly income and stability.

From a credit perspective, both funds seek high-quality bonds. At least 80 percent of the fund's net assets are invested in investment grade municipal securities. This means, at the time of purchase, the ratings on the bonds must be one of the four highest ratings by Moody's Investors Services or Standard & Poor's Corporation. If there's no rating, it needs to be determined to be of comparable quality.

For U.S. Global's bond funds, how are individual bonds selected?

Usually, we start with a maturity or duration target and then search for bonds that fit the criteria. Once identified, we look at the type of bond, coupon, call structure, geography and a credit review to make sure we're comfortable with the risks. We tend to be a buy-and-hold type of investor, holding the bond to maturity or until it is called away.

The bond funds are structured for those investors looking to hold high-quality bonds, reduce their tax bill and lower risk in a portfolio. ■

Tax-exempt income is federal income tax free. A portion of this income may be subject to state and local income taxes, and if applicable, may subject certain investors to the Alternative Minimum Tax as well. Each 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. Bond funds are subject to interest-rate risk; their value declines as interest rates rise. The tax free funds may be exposed to risks related to a concentration of investments in a particular state or geographic area. These investments present risks resulting from changes in economic conditions of the region or issuer.

 www.usfunds.com

Learn how tax-free funds may be good for your portfolio. Request an information kit by calling 800-US-FUNDS.

GET TO KNOW



John Derrick, CFA
Director of Research
Portfolio Manager

Tenure at U.S. Global Investors: Nearly 14 years

Education: Bachelor of Arts in finance from The University of Texas at Arlington

Professional Affiliation: Sits on the board of directors for the CFA Society of San Antonio, Texas

Specialties: Monitors Federal Reserve policy, U.S. economy, Treasuries, government securities, municipal bonds

Favorite subjects in school: History and geography

Quote to live by: "Accept the challenges so that you may feel the exhilaration of victory."

—General George Patton

Book you're reading now: *Hedge Fund Market Wizards*, by Jack D. Schwager

How do you spend your free time? Spending time with family, golf

Favorite sport: Football

Last country to stamp your passport? China



Shareholder Report
U.S. Global Investors
P.O. Box 659405
San Antonio, TX 78265-9604

Presorted
Standard
U.S. Postage
PAID
U.S. Global
Investors

Don't Get Distracted by Negative News

That's what Frank Holmes advised *Mining Markets'* readers in a feature article in the magazine. Read about Frank's background moving from Canada to the U.S., his philosophy on life, sports and investing, and what he expects from China, gold and commodities.



Read the full profile at
www.usfunds.com or call
800-873-8637 to request
your copy.

