

**U.S. GLOBAL INVESTORS FUNDS**

**STATEMENT OF ADDITIONAL INFORMATION**

**ALL AMERICAN EQUITY FUND  
HOLMES GROWTH FUND  
GLOBAL MEGATRENDS FUND  
GOLD and PRECIOUS METALS FUND  
WORLD PRECIOUS MINERALS FUND  
GLOBAL RESOURCES FUND  
EASTERN EUROPEAN FUND  
GLOBAL EMERGING MARKETS FUND  
CHINA REGION FUND  
TAX FREE FUND  
NEAR-TERM TAX FREE FUND  
U.S. GOVERNMENT SECURITIES SAVINGS FUND  
U.S. TREASURY SECURITIES CASH FUND**

U.S. Global Investors Funds (Trust) is an open-end series investment company. This Statement of Additional Information is not a prospectus. You should read it in conjunction with the prospectus dated February 28, 2009, which you may request from U.S. Global Investors, Inc. (Adviser), 7900 Callaghan Road, San Antonio, Texas 78229, or 1-800-US-FUNDS (1-800-873-8637).

The date of this Statement of Additional Information is February 28, 2009.

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## GENERAL INFORMATION

The U.S. Global Investors Funds and U.S. Global Accolade Funds merged into a Delaware statutory trust on October 1, 2008, which is named U.S. Global Investors Funds (Trust). The Trust was organized as a Delaware statutory trust on July 31, 2008. The Gold and Precious Metals, World Precious Minerals, Global Resources, Eastern European, Global Emerging Markets and China Region Funds are non-diversified series, and each of the other funds is a diversified series of the Trust, an open-end management investment company.

Prior to the merger, U.S. Global Investors Funds, an open-end management investment company, was originally incorporated in Texas in 1969 as United Services Funds, Inc. and was reorganized as a Massachusetts business trust on July 31, 1984. The trust changed its name to U.S. Global Investors Funds on February 24, 1997. The Gold and Precious Metals Fund, the World Precious Minerals Fund, the Global Resources Fund, and the China Region Fund were non-diversified series of the trust, and the All American Equity Fund (the All American Fund), Tax Free Fund, Near-Term Tax Free Fund, U.S. Government Securities Savings Fund and U.S. Treasury Securities Cash Fund were diversified series of the trust. On February 15, 2002, the World Gold Fund changed its name to the World Precious Minerals Fund. On December 1, 2007, the Gold Shares Fund changed its name to the Gold and Precious Metals Fund. On October 1, 2008, the China Region Opportunity Fund changed its name to the China Region Fund.

Prior to the merger, U.S. Global Accolade Funds was an open-end management investment company and a Massachusetts business trust organized on April 16, 1993. The Eastern European Fund and the Global Emerging Markets Fund were non-diversified series of the trust. The Holmes Growth Fund and the Global MegaTrends Fund were diversified series of the trust. The Eastern European Fund commenced operations on March 31, 1997, the Global Emerging Markets Fund commenced operations on February 24, 2005, the Holmes Growth Fund commenced operations on October 17, 1994, and the Global MegaTrends Fund commenced operations on October 21, 1991, and became a series of the trust on November 16, 1996, pursuant to a plan of reorganization. On October 1, 2007, the MegaTrends Fund changed its name to the Global MegaTrends Fund.

The trustees shall accept investments in any series of the Trust from such persons and on such terms as they may from time to time authorize. Investments in a series shall be credited to each shareholder's account in the form of full or fractional shares at a net asset value per share determined after the investment is received; provided, however, that the trustees may, in their sole discretion, (a) fix the net asset value per share of the initial capital contribution or (b) impose a sales charge or other fee in connection with investments in the Trust in such manner and at such time as determined by the trustees. The trustees shall have the right to refuse to accept investments in any series at any time without any cause or reason therefore whatsoever.

All consideration received by the Trust for the issue or sale of shares of a particular series, together with all assets in which such consideration is invested or reinvested, all income, earnings, profits, and proceeds thereof, including any proceeds derived from the sale, exchange or liquidation of such assets, and any funds or payments derived from any reinvestment of such proceeds in whatever form the same may be, shall be held and accounted for separately from the other assets of the Trust and of every other series and may be referred to herein as "assets belonging to" that series. The assets belonging to a particular series shall belong to that Series for all purposes, and to no other series, subject only to the rights of creditors of that series. In addition, any assets, income, earnings, profits or funds, or payments and proceeds with respect thereto, which are not readily identifiable as belonging to any particular Series shall be allocated by the Trustees between and among one or more of the series in such manner as the Trustees, in their sole discretion, deem fair and equitable. Each such allocation shall be conclusive and binding upon the shareholders of all series for all purposes, and such assets, income, earnings, profits or funds, or payments and proceeds with respect thereto shall be assets belonging to that series. The assets belonging to a particular series shall be so recorded upon the books of the Trust, and shall be held by the Trustees in trust for the benefit of the holders of shares of that series. The assets belonging to each particular series shall be charged with the liabilities of that series and all expenses, costs, charges, and reserves attributable to that Series. Any general liabilities, expenses, costs, charges, or reserves of the Trust which are not readily identifiable as belonging to a particular series shall be allocated and charged by the Trustees between or among any one or more of the Series in such manner as the Trustees, in their sole discretion, deem fair and equitable. Each such allocation shall be conclusive and binding upon the shareholders of all series for all purposes.

Without limitation of the foregoing, but subject to the right of the trustees in their discretion to allocate general liabilities, expenses, costs, charges, or reserves as herein provided, the debts, liabilities, obligations, and expenses incurred, contracted for or otherwise existing with respect to a particular series shall be enforceable against the assets of such series and not against the assets of any other series of the assets of the Trust generally. Notice of this contractual limitation on inter-series liabilities may, in the Trustee's sole discretion, be set forth in the certificate of trust of the Trust (whether originally or by amendment) as filed or to be filed in the Office of the Secretary of State of the State of Delaware pursuant to the Delaware Statutory Trust Act (the Delaware Act), and upon the giving of such notice in the certificate of trust, the statutory provisions of Section 3804 of the Delaware Act relating to limitations on

liabilities among series (and the statutory effect under Section 3804 of setting forth such notice in the certificate of trust) shall become applicable to the Trust and each series. Any person extending credit to, contracting with or having any claim against any series may look only to the assets of that series to satisfy or enforce any debt, liability, obligation or expense incurred, contracted for or otherwise existing with respect to that series. No shareholder or former shareholder of any series shall have a claim on, or any right to, any assets allocated or belonging to any other series.

Shareholders shall have no preemptive or other right to subscribe to any additional shares or other securities issued by the Trust or the trustees, whether of the same or other series. In addition, shares shall not entitle shareholders to preference, appraisal, conversion or exchange rights (except as specified herein or as specified by the trustees when creating the shares, as in preferred shares).

Each shareholder of the Trust and of each series shall not be personally liable for debts, liabilities, obligations and expenses incurred by, contracted for, or otherwise existing with respect to, the Trust or by or on behalf of any series. The trustees shall have no power to bind any shareholder personally or to call upon any shareholder for the payment of any sum of money or assessment whatsoever other than such as the shareholder may at any time personally agree to pay by way of subscription for any shares or otherwise. Every note, bond, contract or other undertaking issued by or on behalf of the Trust or the trustees relating to the Trust or to a series shall include a recitation limiting the obligation represented thereby to the Trust or to one or more series and its or their assets (but the omission of such a recitation shall not operate to bind any shareholder or trustee of the Trust). Shareholders shall have the same limitation of personal liability as is extended to shareholders of a private corporation for profit incorporated in the State of Delaware. Every written obligation of the Trust or any series shall contain a statement to the effect that such obligation may only be enforced against the assets of the appropriate series or all series; however, the omission of such statement shall not operate to bind or create personal liability for any shareholder or trustee.

Every shareholder, by virtue of having purchased a share, shall become a shareholder and shall be held to have expressly assented and agreed to be bound by the terms of the Agreement and Declaration of Trust.

## **FUND POLICIES**

The following information supplements the discussion of each fund's policies discussed in the funds' prospectus.

**INVESTMENT RESTRICTIONS.** If a percentage investment restriction other than a restriction on borrowing is adhered to at the time of investment, a later increase or decrease in percentage, resulting from a change in values of portfolio securities or amount of net assets, will not be considered a violation of any of the following restrictions.

**INDUSTRY CLASSIFICATION.** All funds use the Bloomberg Sector Classification System (Bloomberg) for industry classification purposes.

## **FUNDAMENTAL INVESTMENT RESTRICTIONS**

Each fund will not change any of the following investment restrictions without the affirmative vote of a majority of the outstanding voting securities of the fund, which, as used herein, means the lesser of (1) 67% of the fund's outstanding shares present at a meeting at which more than 50% of the outstanding shares of the fund are represented either in person or by proxy, or (2) more than 50% of the fund's outstanding shares.

A fund may not:

1. Issue senior securities, except as permitted under the 1940 Act, and as interpreted or modified by regulatory authority having jurisdiction, from time to time.
2. Borrow money, except as permitted under the 1940 Act, and as interpreted or modified by regulatory authority having jurisdiction, from time to time.
3. Engage in the business of underwriting securities issued by other issuers, except to the extent that, in connection with the disposition of portfolio securities, the fund may be deemed an underwriter under the Securities Act of 1933.

4. Purchase or sell real estate, which term does not include securities of companies which deal in real estate and/or mortgages or investments secured by real estate, or interests therein, except that the fund reserves freedom of action to hold and to sell real estate acquired as a result of the fund's ownership of securities.
5. Purchase or sell commodities or commodity contracts, except a fund may purchase and sell (i) derivatives (including, but not limited to, options, futures contracts and options on futures contracts) whose value is tied to the value of a financial index or a financial instrument or other asset (including, but not limited to, securities indexes, interest rates, securities, currencies and physical commodities), and (ii) the Gold and Precious Metals Fund, the World Precious Minerals Fund and the Global Resources Fund may purchase precious metals. The Global MegaTrends Fund is not prohibited from selling commodities or commodity contracts.
6. Make loans except as permitted under the 1940 Act, and as interpreted or modified by regulatory authority having jurisdiction, from time to time.
7. Invest more than 25% of its total assets in securities of companies principally engaged in any one industry (other than obligations issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities), except that the Gold and Precious Metals Fund and World Precious Minerals Fund will invest more than 25% of their total assets in securities of companies involved in the mining, fabrication, processing, marketing or distribution of metals including gold, silver, platinum group, palladium and diamonds; the Global Resources Fund will invest more than 25% of the value of their respective total assets in securities of companies principally engaged in natural resource operations; the Eastern European Fund will invest more than 25% of its total assets in securities of companies involved in oil, gas or banking; and the Tax Free Fund and the Near-Term Tax Free Fund may invest more than 25% of their total assets in general obligation bonds, single state bonds, or in securities issued by states or municipalities in connection with the financing of projects with similar characteristics, such as hospital revenue bonds, housing revenue bonds, electric power project bonds, industry revenue bonds of similar type projects.\*

The Tax Free Fund and the Near-Term Tax Free Fund will consider industrial revenue bonds where payment of principal and interest is the ultimate responsibility of companies within the same industry as securities from one industry. The China Region Fund will consider a foreign government to be an "industry."

\* Although not part of the funds' fundamental investment restriction, for purposes of determining a company's industry, the funds use the Bloomberg Sector Classification System.

### **NON-FUNDAMENTAL INVESTMENT RESTRICTIONS**

The following investment restrictions may be changed by the board of trustees without a shareholder vote.

1. All funds will not borrow money, except that a fund may borrow money for temporary or emergency purposes (not for leveraging or investment) in an amount not exceeding 33 1/3% of a fund's total assets (including the amount borrowed) less liabilities (other than borrowings).
2. All funds will not purchase securities on margin or make short sales, except (i) short sales against the box, (ii) short term credits as are necessary for the clearance of transactions, and (iii) margin payments in connection with futures contracts and options on futures contracts shall not constitute purchasing securities on margin or selling securities short.
3. The Global MegaTrends Fund will not pledge or hypothecate the assets of the fund.
4. The Eastern European Fund will invest no more than 25% of its total assets in any one Bloomberg-classified industries listed below; provided, however, that if at the time of purchase a corresponding industry classification represents 20% or more of the fund's benchmark, the MSCI Emerging Markets Europe 10/40 Index (net Total Return), then the fund may invest up to 35% of its total assets in the corresponding Bloomberg-classified industry.

#### Bloomberg-classified industries involving oil & gas

Oil Companies – Integrated  
 Oil Companies – Exploration & Production  
 Oil Refining & Marketing  
 Oil & Gas Drilling  
 Oil Field Machinery & Equipment

Oil – Field Services  
Oil – U.S. Royalty Trusts  
Seismic Data Collection

Bloomberg-classified industries involving banking

Regional Banks – Non-U.S.  
Commercial Banks Non-U.S.  
Diversified Banking Institutions  
Central Bank  
Cooperative Banks  
Fiduciary Banks  
Money Center Banks  
Mortgage Banks  
Special Purpose Banks  
Super-Regional Banks – U.S.  
Commercial Banks – Central U.S.  
Commercial Banks – Eastern U.S.  
Commercial Banks – Southern U.S.  
Commercial Banks – Western U.S.

## VALUATION OF SHARES

An equity security traded on a domestic stock exchange is valued at its last reported sale price on the primary exchange, as deemed appropriate by the Adviser on the valuation date. If there are no sales on the primary exchange that day, an equity security will be valued at the mean between the last bid and ask quotation. If there is no last bid and ask quotation available, the valuation will revert to the last sales price.

A foreign equity security traded on one or more foreign stock exchanges is valued at its last reported sale price, or the official closing price if deemed appropriate by the Adviser, on the primary exchange of its market on the valuation date. If there are no sales on the primary exchange that day, an equity security will be valued at the mean between the last bid and ask quotation.

Equity securities traded on NASDAQ are valued at the NASDAQ Official Closing Price. If there are no sales that day, such securities will be valued at the mean between the bid and ask quotation, if available. Other over-the-counter securities are valued at the last sale price, if published, or the mean between the last bid and ask quotation, if available.

Municipal debt securities and long-term U.S. Government obligations are each valued by a pricing service that utilizes a matrix pricing system to value such securities.

Debt securities with maturities of sixty days or less at the time of purchase are valued based on amortized cost. This involves valuing a security at its initial cost on the date of purchase, and afterwards, any discount or premium is accreted or amortized at a constant rate until maturity, regardless of the impact of fluctuating interest rates on the market value of the security.

To maintain a constant per share price of \$1.00 for the money market funds, portfolio investments are valued at amortized cost.

If market quotations are not readily available, or when the Adviser believes that a readily available market quotation or other valuation produced by the fund's valuation policies is not reliable, the fund values the assets at fair value using procedures established by the board of trustees. The trustees have delegated pricing authority to the fair valuation committee of the adviser, for certain pricing issues, as defined in the valuation policies.

Calculation of net asset value may not take place at the same time as the determination of the prices of a portfolio used in such calculations. Events affecting the value of securities that occur between the time prices are established and the close of regular trading on the New York Stock Exchange are not reflected in the calculation of net asset value unless the fair valuation committee decides that the event would materially affect the net asset value. If the event would materially affect the fund's net asset value, the security will be fair valued by the fair valuation committee or, at its discretion, by an independent fair valuation vendor.

Net asset value (NAV) is calculated in U.S. dollars. Assets and liabilities valued in another country are converted to U.S. dollars using the exchange rate in effect at the close of the New York Stock Exchange.

## INVESTMENT STRATEGIES AND RISKS

The following information supplements the discussion of each fund's investment strategies and risks in the prospectus.

### ***ALL AMERICAN FUND, HOLMES GROWTH FUND AND GLOBAL MEGATRENDS FUND***

**REAL ESTATE INVESTMENT TRUSTS (REITS).** The funds may invest in real estate investment trusts (REITs), which may subject the fund to many of the same risks related to the direct ownership of real estate. These risks may include declines in the value of real estate, risks related to economic factors, changes in demand for real estate, change in property taxes and property operating expenses, casualty losses, and changes to zoning laws. REITs are also dependent to some degree on the capabilities of the REIT manager. In addition, the failure of a REIT to continue to qualify as a REIT for federal income tax purposes would have an adverse effect upon the value of a portfolio's investment in that REIT.

### ***GOLD and PRECIOUS METALS FUND, WORLD PRECIOUS MINERALS FUND AND GLOBAL RESOURCES FUND***

The Gold and Precious Metals Fund, World Precious Minerals Fund, and the Global Resources Fund may invest in precious metals such as gold, silver, platinum, and palladium bullion. Because precious metals do not generate investment income, the return from such investments will be derived solely from the gains and losses realized by the funds upon the sale of the precious metals. The funds may also incur storage and other costs relating to their investments in precious metals. Under certain circumstances, these costs may exceed the custodial and brokerage costs associated with investments in portfolio securities. To qualify as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986 as amended (the Code), at least ninety percent (90%) of a fund's gross income for any taxable year must be derived from dividends, interest, gains from the disposition of securities, and income and gains from certain other specified sources and transactions (Gross Income Test). Gains from the disposition of precious metals will not qualify for purposes of satisfying the Gross Income Test. Additionally, to qualify under Subchapter M of the Code, at the close of each quarter of each fund's taxable year, at least fifty percent (50%) of the value of the fund's total assets must be represented by cash, Government securities and certain other specified assets (Asset Value Test). Investments in precious metals will not qualify for purposes of satisfying the Asset Value Test. To maintain each fund's qualification as a regulated investment company under the Code, each fund will establish procedures to monitor its investments in precious metals for purposes of satisfying the Gross Income Test and the Asset Value Test.

#### Gold and Precious Minerals Fund

The Gold and Precious Metals Fund intends to concentrate its investments in common stock of companies predominately involved in the mining, fabrication, processing, marketing, or distribution of metals including gold, silver, platinum group, palladium and diamonds. Gold companies include mining companies that exploit gold deposits that are supported by co-products and by-products such as copper, silver, lead and zinc, and also diversified mining companies which produce a meaningful amount of gold. The fund focuses on selecting companies with established producing mines.

#### World Precious Minerals Fund

The World Precious Minerals Fund intends to concentrate its investments in common stocks of companies principally engaged in the exploration for, mining and processing of, or dealing in precious minerals such as gold, silver, platinum, and diamonds.

The production and marketing of gold may be affected by the actions of the International Monetary Fund and certain governments, or by changes in existing governments. In the current order of magnitude of production of gold bullion, the four largest producers of gold are the Republic of South Africa, the United States, Australia, and Canada. Economic and political conditions prevailing in these countries may have direct effects on the production and marketing of newly-produced gold and sales of central bank gold holdings. In South Africa, the activities of companies engaged in gold mining are subject to the policies adopted by the Ministry of Mines. The Reserve Bank of South Africa, as the sole authorized sales agent for South African gold, has an influence on the price and timing of sales of South African gold. The Gold and Precious Metals Fund may have significant investments in South African issuers. The unsettled political and social conditions in South Africa may have disruptive effects on the market prices of the investments of the Gold and Precious Metals Fund and may impair its ability to hold investments in South African issuers.

#### Global Resources Fund

The Global Resources Fund intends to concentrate its investments in common stock of companies within the material resources sector such as oil, gas and basic materials.

***GOLD and PRECIOUS METALS FUND, WORLD PRECIOUS MINERALS FUND, GLOBAL RESOURCES FUND, EASTERN EUROPEAN FUND, GLOBAL EMERGING MARKETS FUND AND CHINA REGION FUND***

**NON-DIVERSIFICATION.** The funds have elected to be classified as non-diversified series. For a diversified fund, with respect to 75% of its total assets, the securities of any one issuer will not amount to any more than 5% of the value of the fund's total assets or 10% of the outstanding voting securities of any single issuer. Under certain conditions, a non-diversified fund may invest without limit in the securities of any single issuer, subject to certain limitations of the Code. Each fund will comply with the diversification requirements imposed by the Code for qualification as a regulated investment company. Because the funds may invest a greater proportion of their assets in the securities of a small number of issuers, changes in the financial condition or market assessment of a single issuer may cause greater fluctuation and volatility in the funds' total returns or asset valuations than if the funds were required to hold smaller positions of the securities of a larger number of issuers.

***EASTERN EUROPEAN FUND***

**GEOGRAPHIC RISK.**

***The Czech Republic.*** The Prague Stock Exchange opened in April 1993 with 12 monetary institutions and 5 brokerage firms as its founding shareholders. The trading and information systems are based on a central automated trading system. The market price of securities is set in this automated system once a day, although a number of the largest stocks on the market now trade through a continuous system. Direct trades are concluded between members, recorded in the automated trading system, and settled through the Exchange Register of Securities. Only members of the Prague Stock Exchange can be participants in automated trades in blocks of securities.

Another method of trading is the over-the-counter market, which operates by directly accessing the Securities Centre. The Securities Act allows for off-exchange trading, which primarily benefits the millions of local shareholders who hold shares because of the original privatization of Czech industry.

Concluded exchange deals are cleared by Securities Register Ltd., an offshoot of the Prague Stock Exchange. All exchange deals between members are guaranteed clearing; a guarantee fund covers the risks and liabilities inherent in exchange trading.

***Hungary.*** In 1995, the Hungarian government implemented a new stabilization program that would privatize state enterprises and state owned banks. Significant privatization in recent years includes oil and gas companies, gas and electricity distribution companies, and partial privatization of telecommunications, commercial banking, and television companies. The Budapest Commodity and Stock Exchange opened in 1864 and became one of the largest markets in Central Europe. After the Second World War, the exchange was closed by the Communists and reopened 42 years later in June 1990. The Budapest Stock Exchange is a two-tier market consisting of listed and traded stocks. The over-the-counter market is not regulated and any public company's shares can be traded on it.

***Poland.*** The Act establishing the Warsaw Stock Exchange (1991) provided the basic legal framework for securities activities. The Law on Public Trading in Securities and trust funds (1991) regulates the public offerings of securities, the establishment of open-end investment funds and the operations of securities brokers. Polish equities are held on a paperless book-entry system, based on a computerized central depository. For listed securities, it is a requirement that trades take place through the market for the change of ownership to take place.

***Russia.*** Russia does not have a centralized stock exchange, although exchange activity has developed regionally and shares are now traded on exchanges located throughout the country. The majority of stocks in Russia are traded on the over-the-counter market. It is through the over-the-counter market that foreign investors typically participate in the Russian equity market.

One of the largest problems in the equity market continues to be shareholders' property rights. In Russia, the only proof of ownership of shares is an entry in the shareholders' register. Despite a presidential decree requiring companies with over 1,000 shareholders to have an independent body to act as their registrar, in practice a company's register is still susceptible to manipulation by management. To solve this and related problems, the Federal Securities Commission was created. Also, Russian law requires banks and market professionals to acquire a license before handling securities.

***Slovenia.*** The Republic of Slovenia is situated between Italy, Austria and Croatia.

Slovenia's transition from a socialist regime to a market economy continues to be very successful and the economy is currently enjoying healthy growth and balanced trade.

Slovenia became one of the first candidate countries to finalize negotiations with the EU and obtained full EU membership in 2004. EU membership will improve Slovenia's risk profile and drive foreign investment which will lead to an increased level of liquidity in the stock market and a rise in company valuations.

**Turkey.** Turkey is a democratic, secular, unitary, constitutional republic whose political system was established in 1923 under the leadership of Mustafa Kemal Atatürk, following the fall of the Ottoman Empire in the aftermath of World War I. Since then, Turkey has become increasingly integrated with the West through membership in organizations such as the Council of Europe, NATO, OECD, OSCE and the G-20 major economies. Turkey began full membership negotiations with the European Union in 2005, having been an associate member of the EEC since 1963, and having reached a customs union agreement in 1995. Meanwhile, as a Muslim-majority country, Turkey has continued to foster close cultural, political, economic and industrial relations with the Eastern world, particularly with the states of the Middle East and Central Asia, through membership in organizations such as the OIC and ECO. Turkey is classified

### **INDUSTRY CONCENTRATION RISK.**

The Eastern European Fund invests more than 25% of its investments in companies principally engaged in the oil, gas or banking industries. Oil & gas companies are a large part of the Russian economy and banks typically are a significant component of emerging market economies, such as those in Russia and other Eastern European countries. The risk of concentrating investments in this group of industries will make the fund more susceptible to risk in these industries than funds which do not concentrate their investments in an industry and may make the fund's performance more volatile. To the extent that the fund's assets are invested in the oil & gas industry, the fund would be particularly vulnerable to factors affecting the industry, such as increased governmental regulation of the environment. Increased environmental regulation may, among other things, increase compliance costs and affect business opportunities for companies in which the fund invests. The fund would also be affected by changing commodity prices, which can be highly volatile and are subject to risk of over supply and decreased demand. To the extent that the fund's assets are invested in companies operating in the banking industry, the fund is subject to legislative or regulatory changes, adverse market conditions, and/or increased competition affecting banking companies. The prices of securities of banking companies also may fluctuate widely due to general economic conditions that could create exposure to credit losses.

### **CHINA REGION FUND**

#### **GEOGRAPHIC RISK.**

The China Region Fund will invest primarily in securities which are listed or otherwise traded by authorized brokers and other entities and will focus its investments on equities and quasi-equity securities. Quasi-equity securities may include, for example: warrants or similar rights or other financial instruments with substantial equity characteristics, such as debt securities convertible into equity securities. Although the China Region Fund expects to invest primarily in listed securities of established companies, it may, subject to local investment limitations, invest in unlisted securities of China companies and companies that have business associations in the China Region, including investments in new and early stage companies. This may include direct equity investments. Such investments may involve a high degree of business and financial risk. Because of the absence of any trading markets for these investments, the China Region Fund may find itself unable to liquidate such securities in a timely fashion, especially in the event of negative news regarding the specific securities or the China markets in general. Such securities could decline significantly in value prior to the China Region Fund's being able to liquidate such securities. In addition to financial and business risks, issuers whose securities are not listed will not be subject to the same disclosure requirements applicable to issuers whose securities are listed.

The China Region Fund is non-diversified and may invest a significant portion of its assets in a small number of companies. This may cause the performance of the fund to be dependent upon the performance of one or more selected companies, which may increase the volatility of the fund.

**People's Republic of China.** The People's Bank of China is officially responsible for managing stock markets in the People's Republic of China (PRC), regulating all trading and settlement and approving all issues of new securities. The Shanghai and Shenzhen Stock Exchanges are highly automated with trading and settlement executed electronically. Considerable autonomy has been given to

local offices of the State Commission of Economic System Reform in developing securities markets. They are charged with identifying suitable companies for listing.

There are currently two officially recognized securities exchanges in China - the Shanghai Stock Exchange, which opened in December 1990, and the Shenzhen Stock Exchange, which opened in July 1991. Shares traded on these exchanges are of two types - "A" shares, which can be traded only by Chinese investors and qualified foreign institutional investors, and "B" shares. The "B" share market was, prior to February 19, 2001, restricted to individuals and corporations who were not residents of China. However, on February 19, 2001, the Chinese Securities Regulatory Commission (CSRC) announced that domestic Chinese investors with legal foreign currency accounts might invest in "B" shares as well. The "A" share market is now open to qualified foreign institutional investors. The settlement period for "B" share trades is the same in Shenzhen and Shanghai. Settlements are effected on the third business day after the transaction. As of July 2007, one hundred and forty-three companies were authorized to issue what are called "H" shares, which trade in Hong Kong and may be purchased by anyone.

The China Region Fund will invest in both new and existing enterprises registered and operating in China. These will include wholly Chinese-owned enterprises, wholly foreign-owned enterprises, and Sino-foreign joint ventures. It is not the intention of the China Region Fund to limit its investments to securities listed on the Shenzhen and Shanghai exchanges alone.

**Hong Kong.** Sovereignty over Hong Kong was transferred from Great Britain to the PRC on July 1, 1997, at which time Hong Kong became a Special Administrative Region (SAR) of the PRC. Under the agreement providing for such transfer (known as the Joint Declaration) and the PRC law implementing its commitments hereunder (Basic Law), the current social and economic systems in Hong Kong are to remain unchanged for at least 50 years, and Hong Kong is to enjoy a high degree of autonomy except in foreign and defense affairs. The SAR will be vested with executive, legislative, and judicial power. Laws currently in force, as they may be amended by the SAR Legislature, are to remain in force except to the extent they contravene the Basic Law. The PRC may not levy taxes on the SAR, the Hong Kong dollar is to remain fully convertible, and Hong Kong is to remain a free port. Under the terms of the Basic Law, Hong Kong's current social freedoms, including freedoms of speech, press, assembly, travel, and religion, are not to be affected. It is not clear how future developments in Hong Kong and China may affect the implementation of the Basic Law after the transfer of sovereignty in 1997.

It is to be expected that the Hong Kong stock market will remain volatile in response to prevailing perceptions of political developments in China. Foreign enterprises are treated virtually the same as domestic enterprises and there are no restrictions on exchange of foreign currencies or on the repatriation of profits. Import and export licenses are easy to obtain. There are no exchange controls, investment restrictions, or dividend withholding taxes. However, currently there are no laws in Hong Kong that specifically protect foreign investors against expropriation.

**Taiwan.** The Taiwan Stock Exchange (TSE), the sole stock exchange in Taiwan, is owned by government-controlled enterprises and private banks. In 1968, the Securities and Exchange Law was passed and, since that time, the Taiwan securities market has been regulated by the Taiwan Securities and Exchange Commission (TSEC), which, in turn, is supervised by the Ministry of Finance (MOF). The Central Bank of China (CBC) is also responsible for supervising certain aspects of the Taiwan securities market.

While, historically, foreign individual investors have not been permitted to invest directly in securities listed on the TSE, since 1990 certain foreign institutional investors have been permitted access to the Taiwan securities market. Currently, foreign institutional investors that meet certain guidelines promulgated by the TSEC and which are also approved by the TSEC, the MOF and the CBC, will be permitted to invest in TSE listed securities. However, qualifying foreign institutional investors (such as the China Region Fund) may not own more than 5% of the shares of a company listed on the TSE, and the total foreign ownership of any listed company may not exceed 10%. In addition, the Taiwanese government prohibits foreign investment in certain industries including transportation and energy companies. Furthermore, Taiwan imposes an overall country limit on investment and requires a long-term commitment. Over time, restrictions on investments in Taiwan have begun to ease to permit greater and more flexible investment in Taiwanese securities.

The political reunification of China and Taiwan is a highly problematic issue that may not be settled in the near future. Taiwan's economic interaction with China can take place only through indirect channels (generally via Hong Kong) due to the official prohibitions on direct trade between the PRC and Taiwan. Nevertheless, Taiwan has become a significant investor in China and China has become one of the largest markets for Taiwanese goods.

**Exchange Control.** PRC currency, the Renminbi (RMB), is not freely convertible. The exchange rate of RMB against foreign currencies is regulated and published daily by the State Administration of Exchange Control (SAEC). In 1986, to help solve the

foreign exchange problems of foreign investors, China established Foreign Exchange Adjustment Centers, commonly referred to as “swap centers,” in various cities. These swap centers provide an official forum where foreign invested enterprises may, under the supervision and control of SAEC and its branch offices, engage in mutual adjustment of their foreign exchange surpluses and shortfalls. More recently, regulations have been relaxed to allow Chinese state enterprises and individuals to participate in foreign exchange swap transactions. Trading of RMB and foreign currencies at the swap centers is conducted at a rate determined by supply and demand rather than at the official exchange rate. Such market exchange rates can be highly volatile and are subject to sharp fluctuations depending on market conditions.

The China Region Fund may use official or market rates of exchange in connection with portfolio transactions and net asset value determinations consistent with prevailing practices in the relevant markets or locations, except that the China Region Fund will not use any exchange rate if the effect of such use would be to restrict repatriation of assets.

No exchange control approval is required for the China Region Fund to acquire “B” shares listed on stock exchanges. Dividends and/or proceeds from the sale of securities purchased by the China Region Fund in listed China companies may be remitted outside China, subject to payment of any relevant taxes and completion of the requisite formalities.

Shanghai securities are now being quoted in U.S. dollars and Shenzhen securities are now being quoted in Hong Kong dollars.

China and Taiwan joined the World Trade Organization (WTO) as of November 2002. Membership has opened up new channels of trade relations that are overseen by the WTO. This will both open up new trade agreements and provide the proper structure for trade between China and Taiwan and the rest of the WTO membership.

#### ***TAX FREE FUND AND NEAR-TERM TAX FREE FUND***

The funds invest primarily in municipal bonds. Municipal securities are generally of two principal types - notes and bonds. Municipal notes generally have maturities of one year or less and provide for short-term capital needs. Municipal bonds normally have maturities of more than one year and meet longer-term needs. Municipal bonds are classified into two principal categories - general obligation bonds and revenue bonds. General obligation bonds are backed by the taxing power of the issuer and are considered the safest type of municipal bond. Revenue bonds are backed by the revenues derived from a project or facility.

The tax free funds invest only in debt securities earning one of the four highest ratings by Moody’s Investor’s Services (Moody’s) (Aaa, Aa, A, Baa) or by Standard & Poors Corporation (S&P) (AAA, AA, A, BBB) (or, if not rated by Moody’s or Standard & Poors, as determined by the Adviser to be of comparable quality). Not more than 10% of either of the fund’s total assets will be invested in the fourth rating category. Investments in the fourth category may have speculative characteristics and therefore, may involve higher risks. Investments in the fourth rating category of bonds are generally regarded as having an adequate capacity to pay interest and repay principal. However, these investments may be more susceptible to adverse changes in the economy. Municipal notes (including variable rate demand obligations) must be rated MIG1/VMIG2 or MIG2/VMIG2 by Moody’s or SP-1 or SP-2 by S&P (or if not rated, as determined by the Adviser to be of comparable quality). Tax-exempt commercial paper must be rated P-1 or P-2 by Moody’s or A-1 or A-2 by S&P (or if not rated, as determined by the Adviser to be of comparable quality).

The funds may purchase variable and floating rate obligations from issuers or may acquire participation interest in pools of these obligations from banks or other financial institutions. Variable and floating rate obligations are municipal securities whose interest rates change periodically. They normally have a stated maturity greater than one year, but permit the holder to demand payment of principal and interest anytime or at specified intervals.

The funds may purchase obligations with term puts attached. “Put” bonds are tax-exempt securities that may be sold back to the issuer or a third party at face value before the stated maturity. The put feature may increase the cost of the security, consequently reducing the yield of the security.

The funds may purchase municipal lease obligations or certificates of participation in municipal lease obligations. A municipal lease obligation is not a general obligation of the municipality for which the municipality pledges its taxing power. Ordinarily, a lease obligation will contain a “nonappropriation” clause if the municipality has no obligation to make lease payments in future years unless money is appropriated for that purpose annually. Because of the risk of nonappropriation, some lease obligations are issued with third-party credit enhancements, such as insurance or a letter of credit.

Municipal lease obligations are subject to different revenue streams than are those associated with more conventional municipal securities. For this reason, before investing in a municipal lease obligation, the Adviser will consider, among other things, whether (1) the leased property is essential to a governmental function of the municipality, (2) the municipality is prohibited from substituting or purchasing similar equipment if lease payments are not appropriated, and (3) the municipality has maintained good market acceptability for its lease obligations in the past.

The funds may purchase zero-coupon bonds. Zero-coupon bonds are bonds that do not pay interest at regular intervals and are issued at a discount from face value. The discount approximates the total amount of interest the bond will accrue from the date of issuance to maturity. Even though such securities do not pay current interest in cash, a fund is nonetheless required to accrue interest income on these investments and to distribute the interest income at least annually to shareholders. Thus, a fund could be required at times to liquidate other investments to satisfy distribution requirements.

While the funds primarily invest in municipal bonds the income of which is free from federal income taxes, they may also invest in repurchase agreements and other securities that may earn taxable income. Moreover, the funds may sell portfolio securities at a gain, which if held more than a year may be taxed to shareholders as long-term capital gains and if held one year or less may be taxed to shareholders as ordinary income.

Subsequent to a purchase by either fund, an issue of municipal bonds may cease to be rated or its rating may be reduced below the minimum required for purchase by that fund. Neither event will require sale of such municipal bonds by either tax free fund, but the Adviser will consider such event in its determination of whether either fund should continue to hold the municipal bonds. To the extent that the rating given by Moody's or Standard & Poors for municipal bonds may change as a result of changes in such organizations or their rating systems, the funds will attempt to use comparable ratings as standards for their investments in accordance with their investment policies.

**MOODY'S INVESTORS SERVICE, INC.** Aaa-the "best quality." Aa- "high quality by all standards," but margins of protection or other elements make long-term risks appear somewhat larger than Aaa rated municipal bonds. A- "upper medium grade obligation." Security for principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future. Baa- "medium grade obligations." Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and have speculative characteristics as well.

**STANDARD & POORS CORPORATION.** AAA- "obligation of the highest quality." AA-issues with investment characteristics "only slightly less marked than those of the prime quality issues." A- "the third strongest capacity for payment of debt service." Principal and interest payments on the bonds in this category are considered safe. It differs from the two higher ratings, because with respect to general obligation bonds, there is some weakness, which, under certain adverse circumstances, might impair the ability of the issuer to meet debt obligations at some future date. With respect to revenue bonds, debt service coverage is good but not exceptional, and stability of the pledged revenues could show some variations because of increased competition or economic influences on revenues. BBB- "regarded as having adequate capacity to pay interest and repay principal." Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal.

**GENERAL INFORMATION ON MUNICIPAL BONDS.** Municipal bonds are generally understood to include debt obligations issued to obtain funds for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, schools, streets, and water and sewer works. Municipal bonds may also be issued to refund outstanding obligations. In addition, certain types of private activity bonds are issued by or on behalf of public authorities to obtain funds to provide privately operated hazardous waste-treatment facilities, certain redevelopment projects, airports, docks, and wharves (other than lodging, retail, and office facilities), mass commuting facilities, multifamily residential rental property, sewage and solid waste disposal property, facilities for the furnishing of water, and local furnishing of electric energy or gas or district heating and cooling facilities. Such obligations are considered to be municipal bonds provided that the interest paid thereon qualifies as exempt from Federal income tax, in the opinion of bond counsel, to the issuer. In addition, if the proceeds from private activity bonds are used for the construction, equipment, repair or improvement of privately operated industrial or commercial facilities, the interest paid on such bonds may be exempt from Federal income tax, although current Federal tax laws place substantial limitations on the size of such issues.

In order to be classified as a "diversified" investment company under the 1940 Act, a mutual fund may not, with respect to 75% of its total assets, invest more than 5% of its total assets in the securities of any one issuer (except U.S. Government obligations) or own

more than 10% of the outstanding voting securities of any one issuer. For the purpose of diversification under the 1940 Act, the identification of the issuer of municipal bonds depends on the terms and conditions of the security. When the assets and revenues of an agency, authority, instrumentality, or other political subdivision are separate from those of the government creating the issuing entity and the security is backed only by the assets and revenues of such entity, such entity would be deemed to be the sole issuer. Similarly, in the case of a private activity bond, if that bond is backed only by the assets and revenues of the non-governmental user, then such non-governmental user would be deemed the sole issuer. If, however, in either case the creating government or some other entity guarantees a security, such a guarantee may be considered a separate security and is to be treated as an issue of such government or other entity.

The yields on municipal bonds are dependent on a variety of factors, including general economic and monetary conditions, money market factors, conditions of the municipal bond market, size of a particular offering, maturity of the obligation, and rating of the issue. The imposition of a mutual fund's management fees, as well as other operating expenses, will have the effect of reducing the yield to investors.

Municipal bonds are also subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the Federal Bankruptcy Code and laws, if any, which may be enacted by Congress or state legislatures extending the time for payment of principal or interest, or both, or imposing other constraints upon enforcement of such obligations or upon municipalities by levying taxes. There is also the possibility that, as a result of litigation or other conditions, the power or ability of any one or more issuers to pay, when due, principal and interest on its, or their, municipal bonds may be materially affected. The Tax Reform Act of 1986 enlarged the scope of the alternative minimum tax. As a result, interest on private activity bonds will generally be a preference item for alternative minimum tax purposes.

From time to time, proposals to restrict or eliminate the Federal income tax exemption for interest on municipal bonds have been introduced before Congress. Similar proposals may be introduced in the future. If such a proposal were enacted, the availability of municipal bonds for investment by the tax free funds would be adversely affected. In such event, the tax free funds would re-evaluate their investment objective and policies.

**MUNICIPAL NOTES.** Municipal notes are generally used to provide for short-term capital needs and generally have maturities of one year or less. Municipal notes include:

1. **Tax Anticipation Notes.** Tax anticipation notes are issued to finance working capital needs of state and local governments. Generally, they are issued in anticipation of various seasonal tax revenues, such as ad valorem property, income, sales, use and business taxes, and are payable from these specific future taxes. Tax anticipation notes are usually general obligations of the issuer. General obligations are secured by the issuer's pledge of its full faith, credit and taxing power for the payment of principal and interest.
2. **Revenue Anticipation Notes.** Revenue anticipation notes are issued by state and local governments or governmental bodies with the expectation that receipt of future revenues, such as Federal revenue sharing or state aid payments, will be used to repay the notes. Typically, they also constitute general obligations of the issuer.
3. **Bond Anticipation Notes.** Bond anticipation notes are issued to provide interim financing for state and local governments until long-term financing can be arranged. In most cases, the long-term bonds then provide the money for the repayment of the notes.
4. **Tax-Exempt Commercial Paper.** Tax-exempt commercial paper is a short-term obligation with a stated maturity of 365 days or less. It is issued and backed by agencies of state and local governments to finance seasonal working capital needs or as short-term financing in anticipation of longer-term financing.

**VARIABLE RATE DEMAND OBLIGATIONS.** Variable rate obligations have a yield that is adjusted periodically based upon changes in the level of prevailing interest rates. Such adjustments are generally made on a daily, weekly, or monthly basis. Variable rate obligations may lessen the capital fluctuations usually inherent in fixed income investments.

Unlike securities with fixed rate coupons, variable rate instrument coupons are not fixed for the full term of the instrument. Rather, they are adjusted periodically based upon changes in prevailing interest rates. The more frequently such instruments are adjusted, the less such instruments are affected by interest rate changes. The value of a variable rate instrument, however, may fluctuate in response to market factors and changes in the creditworthiness of the issuer. By investing in variable rate obligations the funds seek to take

advantage of the normal yield curve pattern that usually results in higher yields on longer-term investments. This policy also means that should interest rates decline, a fund's yield will decline and that fund and its shareholders will forego the opportunity for capital appreciation of that fund's investments and of their shares to the extent a portfolio is invested in variable rate obligations. Should interest rates increase, a fund's yield will increase and that fund and its shareholders will be subject to lessened risks of capital depreciation of its portfolio investments and of their shares to the extent a portfolio is invested in variable rate obligations. There is no limitation on the percentage of a fund's assets which may be invested in variable rate obligations. For purposes of determining a fund's weighted average portfolio maturity, the term of a variable rate obligation is defined as the longer of the length of time until the next rate adjustment or the time of demand.

Floating rate demand notes have an interest rate fixed to a known lending rate (such as the prime rate) and are automatically adjusted when the known rate changes. Variable rate demand notes have an interest rate that is adjusted at specified intervals to a known rate. Demand notes provide that the holder may demand payment of the note at its par value plus accrued interest by giving notice to the issuer. To ensure that ability of the issuer to make payment upon such demand, the note may be supported by an unconditional bank letter of credit.

The trustees have approved investments in floating and variable rate demand notes upon the following conditions: the funds have an unconditional right of demand, upon notice to exceed thirty days, against the issuer to receive payment; the Adviser determines the financial condition of the issuer and continues to monitor it in order to be satisfied that the issuer will be able to make payment upon such demand, either from its own resources or through an unqualified commitment from a third party; and the rate of interest payable is calculated to ensure that the market value of such notes will approximate par value on the adjustment dates.

**OBLIGATIONS WITH TERM PUTS ATTACHED.** The funds may purchase municipal securities together with the right that they may resell the securities to the seller at an agreed-upon price or yield within a specified period prior to the maturity date of the securities. Although it is not a put option in the usual sense, such a right to resell is commonly known as a "put." The funds may purchase obligations with puts attached from banks and broker-dealers.

The price the funds expect to pay for municipal securities with puts generally is higher than the price which otherwise would be paid for the municipal securities alone. The funds will use puts for liquidity purposes in order to permit them to remain more fully invested in municipal securities than would otherwise be the case by providing a ready market for certain municipal securities in their portfolio at an acceptable price. The put generally is for a shorter term than the maturity of the municipal security and does not restrict in any way the funds' ability to dispose of (or retain) the municipal security.

In order to ensure that the interest on municipal securities subject to puts is tax-exempt to either fund, each will limit its use of puts in accordance with applicable interpretations and rulings of the Internal Revenue Service.

Since it is difficult to evaluate the likelihood of exercise of the potential benefit of a put, it is expected that puts will be determined to have a "value" of zero, regardless of whether any direct or indirect consideration was paid. Accordingly, puts as separate securities are expected not to affect the calculation of the weighted average portfolio maturity. Where a fund has paid for a put, the cost will be reflected as unrealized depreciation in the underlying security for the period during which the commitment is held, and therefore would reduce any potential gain on the sale of the underlying security by the cost of the put. There is a risk that the seller of the put may not be able to repurchase the security upon exercise of the put by that tax free fund. To minimize such risks, the tax free funds will only purchase obligations with puts attached from sellers whom the Adviser believes to be creditworthy.

#### ***U.S. GOVERNMENT SECURITIES SAVINGS FUND AND U.S. TREASURY SECURITIES CASH FUND***

The U.S. Treasury Securities Cash Fund and U.S. Government Securities Savings Fund have adopted a fundamental policy requiring use of best efforts to maintain a constant net asset value of \$1.00 per share. Shareholders should understand that, while each fund will use its best efforts to attain this objective, there can be no guarantee that it will do so. The U.S. Treasury Securities Cash Fund and U.S. Government Securities Savings Fund value their respective portfolio securities on the basis of the amortized cost method. This requires that those funds maintain a dollar-weighted average portfolio maturity of 90 days or less, generally purchase only instruments having remaining maturities of 397 days or less, and invest only in securities determined by the board of trustees of the Trust to be of high quality with minimal credit risks.

#### **COMMON INVESTMENT STRATEGIES AND RELATED RISKS**

The following investment strategies apply to the All American Fund, Holmes Growth Fund, Global MegaTrends Fund, Gold and Precious Metals Fund, World Precious Minerals Fund, Global Resources Fund, Eastern European Fund, Global Emerging Markets Fund, China Region Fund (collectively, “Equity Funds”), Tax Free Fund, Near-Term Tax Free Fund, U.S. Government Securities Savings Fund, and U.S. Treasury Securities Cash Fund.

**MARKET RISK.** Investments in equity and debt securities are subject to inherent market risks and fluctuations in value due to earnings, economic conditions, quality ratings and other factors beyond the Adviser’s control. Therefore, the return and net asset value of the funds, except the money market funds, will fluctuate.

**FOREIGN SECURITIES.** The Equity Funds may invest in foreign securities. Investing in securities issued by companies whose principal business activities are outside the United States may involve significant risks not present in domestic investments. For example, there is generally less publicly available information about foreign companies, particularly those not subject to the disclosure and reporting requirements of the United States securities laws. Foreign issuers are generally not bound by uniform accounting, auditing, and financial reporting requirements and standards of practice comparable to those applicable to domestic issuers. Investments in foreign securities also involve the risk of possible adverse changes in investment or exchange control regulations, expropriation or confiscatory taxation, limitation of the removal of funds or other assets of the fund, political or financial instability or diplomatic and other developments that could affect such investment. In addition, economies of particular countries or areas of the world may differ favorably or unfavorably from the economy of the United States. It is anticipated that in most cases the best available market for foreign securities will be on exchanges or in over-the-counter markets located outside of the United States. Foreign stock markets, while growing in volume and sophistication, are generally not as developed as those in the United States are, and securities of some foreign issuers (particularly those in developing countries) may be less liquid and more volatile than securities of comparable United States companies. In addition, foreign brokerage commissions are generally higher than commissions on securities traded in the United States and may be non-negotiable. In general, there is less overall governmental supervision and regulation of foreign securities markets, broker/dealers, and issuers than in the United States.

**AMERICAN DEPOSITORY RECEIPTS (ADRs) AND GLOBAL DEPOSITORY RECEIPTS (GDRs).** ADRs are depository receipts typically issued by a U.S. bank or trust company that evidence ownership of underlying securities issued by a foreign corporation. GDRs are typically issued by foreign banks or trust companies, although they also may be issued by U.S. banks or trust companies, and evidence ownership of underlying securities issued by either a foreign or a United States corporation. Generally, depository receipts in registered form are designed for use in the U.S. securities market, and depository receipts in bearer form are designed for use in securities markets outside the United States. Depository receipts may not necessarily be denominated in the same currency as the underlying securities into which they may be converted. In addition, the issuers of the securities underlying unsponsored depository receipts are not obligated to disclose material information in the United States; and, therefore, there may be less information available regarding such issuers and there may not be a correlation between such information and the market value of the depository receipts. For purposes of a fund’s investment policies, all Equity Funds’ investments in depository receipts, except for the Holmes Growth Fund, will be deemed investments in the underlying securities (i.e., investments in foreign issuers). The Holmes Growth Fund’s investment in depository receipts will not be treated as an investment in a foreign issuer.

**EMERGING MARKETS.** The Equity Funds may invest in countries considered by the Adviser to represent emerging markets. The Adviser determines which countries are emerging market countries by considering various factors, including development of securities laws and market regulation, total number of issuers, total market capitalization, and perceptions of the investment community. Generally, emerging markets are those other than North America, Western Europe, and Japan.

Investing in emerging markets involves risks and special considerations not typically associated with investing in other more established economies or securities markets. Investors should carefully consider their ability to assume the below listed risks before making an investment in a fund. Investing in emerging markets is considered speculative and involves the risk of total loss of investment.

Risks of investing in emerging markets include:

1. The risk that a fund’s assets may be exposed to nationalization, expropriation, or confiscatory taxation.
2. The fact that emerging market securities markets are substantially smaller, less liquid and more volatile than the securities markets of more developed nations. The relatively small market capitalization and trading volume of emerging market securities may cause the fund’s investments to be comparatively less liquid and subject to greater price volatility than investments in the securities markets of developed nations. Many emerging markets are in their infancy and have yet to be

exposed to a major correction. In the event of such an occurrence, the absence of various market mechanisms that are inherent in the markets of more developed nations may lead to turmoil in the market place, as well as the inability of the fund to liquidate its investments.

3. Greater social, economic, and political uncertainty (including the risk of war).
4. Greater price volatility, substantially less liquidity and significantly smaller market capitalization of securities markets.
5. Currency exchange rate fluctuations and the lack of available currency hedging instruments.
6. Higher rates of inflation.
7. Controls on foreign investment and limitations on repatriation of invested capital and on a fund's ability to exchange local currencies for U.S. dollars.
8. Greater governmental involvement in and control over the economy.
9. The fact that emerging market companies may be smaller, less seasoned, and newly organized.
10. The difference in, or lack of, auditing and financial reporting standards, which may result in unavailability of material information about issuers.
11. The fact that the securities of many companies may trade at prices substantially above book value, at high price/earnings ratios, or at prices that do not reflect traditional measures of value.
12. The fact that statistical information regarding the economy of many emerging market countries may be inaccurate or not comparable to statistical information regarding the United States or other economies.
13. Less extensive regulation of the securities markets.
14. Certain considerations, such as currency fluctuations, less public disclosure and economic and political risk, regarding the maintenance of fund portfolio securities and cash with foreign sub-custodians and securities depositories.
15. The risk that it may be more difficult, or impossible, to obtain and/or enforce a judgment than in other countries.
16. The risk that a fund may be subject to income or withholding taxes imposed by emerging market countries or other foreign governments. The funds intend to elect for federal income tax purposes, when eligible, to "pass through" to the funds' shareholders the amount of foreign income tax and similar taxes paid by a fund. The foreign taxes passed through to a shareholder would be included in the shareholder's income and may be claimed as a deduction or credit on their federal income tax return. Other taxes, such as transfer taxes, may be imposed on a fund, but would not give rise to a credit or be eligible to be passed through to the shareholders.
17. The fact that a fund also is permitted to engage in foreign currency hedging transactions and to enter into stock options on stock index futures transactions, each of which may involve special risks, although these strategies cannot at the present time be used to a significant extent by a fund in the markets in which the fund will principally invest.
18. Enterprises in which a fund invests may be or become subject to unduly burdensome and restrictive regulation affecting the commercial freedom of the invested company and thereby diminishing the value of a fund's investment in it. Restrictive or over-regulation may be, therefore, a form of indirect nationalization.
19. Investments in equity securities are subject to inherent market risks and fluctuations in value due to earnings, economic conditions, quality ratings, and other factors beyond the control of the Adviser. As a result, the return and net asset value of the funds will fluctuate.
20. The Adviser may engage in hedging transactions in an attempt to hedge a fund's foreign securities investments back to the U.S. dollar when, in its judgment, currency movements affecting particular investments are likely to harm the performance of a

fund. Possible losses from changes in currency exchange rates are primarily a risk of unhedged investing in foreign securities. While a security may perform well in a foreign market, if the local currency declines against the U.S. dollar, gains from the investment can disappear or become losses. Typically, currency fluctuations are more extreme than stock market fluctuations. Accordingly, the strength or weakness of the U.S. dollar against foreign currencies may account for part of a fund's performance even when the Adviser attempts to minimize currency risk through hedging activities. While currency hedging may reduce portfolio volatility, there are costs associated with such hedging, including the loss of potential profits, losses on hedging transactions, and increased transaction expenses.

**REPURCHASE AGREEMENTS.** The funds may invest a portion of their assets in repurchase agreements with United States broker-dealers, banks and other financial institutions, provided the funds' custodian always has possession of securities serving as collateral or has evidence of book entry receipt of such securities. In a repurchase agreement, a fund purchases securities subject to the seller's agreement to repurchase such securities at a specified time (normally one day) and price. The repurchase price reflects an agreed upon interest rate during the time of investment. All repurchase agreements must be collateralized with securities (typically United States government or government agency securities), the market values of which equal or exceed 102% of the principal amount of the repurchase obligation. If an institution enters an insolvency proceeding, the resulting delay in liquidation of securities serving as collateral could cause a fund some loss if the value of the securities declined before liquidation. To reduce the risk of loss, funds will enter into repurchase agreements only with institutions and dealers the Adviser considers creditworthy.

**SECURITIES LENDING.** Each fund may lend its portfolio securities to qualified securities dealers or other institutional investors. Currently, it is not the intention of any fund to lend securities. When lending securities, a fund will receive cash or high-quality securities as collateral for the loan. Each fund, except the government money market funds, may invest cash collateral in repurchase agreements, including repurchase agreements collateralized with non-governmental securities. The government money market funds may invest cash collateral in repurchase agreements collateralized by obligations in which each fund may normally invest. Under the terms of the funds' current securities lending agreements, the funds' lending agent has guaranteed performance of the obligation of each borrower and each counterparty to each repurchase agreement in which cash collateral is invested.

A failure by a borrower to return the loaned securities when due could result in a loss to the fund if the value of the collateral is less than the value of the loaned securities at the time of the default. In addition, a fund could incur liability to the borrower if the value of any securities purchased with cash collateral decreases during the term of the loan.

**BORROWING.** The funds may have to deal with unpredictable cash flows as shareholders purchase and redeem shares. Under adverse conditions, the funds might have to sell portfolio securities to raise cash to pay for redemptions at a time when investment considerations would not favor such sales. In addition, frequent purchases and sales of portfolio securities tend to decrease fund performance by increasing transaction expenses.

Each fund may borrow money to the extent permitted under the 1940 Act. As a nonfundamental policy, a fund may borrow money for temporary or emergency purposes (not for leveraging or investment) in an amount not exceeding 33 1/3% of a fund's total assets (including the amount borrowed) less liabilities (other than borrowing). Through such borrowings, these funds may avoid selling portfolio securities to raise cash to pay for redemptions at a time when investment considerations would not favor such sales. In addition, the funds' performance may be improved due to a decrease in the number of portfolio transactions. After borrowing money, if subsequent shareholder purchases do not provide sufficient cash to repay the borrowed monies, a fund will liquidate portfolio securities in an orderly manner to repay the borrowed monies.

To the extent that a fund borrows money before selling securities, the fund would be leveraged such that the fund's net assets may appreciate or depreciate more than an unleveraged portfolio of similar securities. Since substantially all of a fund's assets will fluctuate in value and whereas the interest obligations on borrowings may be fixed, the net asset value per share of the fund will increase more when the fund's portfolio assets increase in value and decrease more when the fund's portfolio assets decrease in value than would otherwise be the case. Moreover, interest costs on borrowings may fluctuate with changing market rates of interest and may partially offset or exceed the returns that the funds earn on portfolio securities. Under adverse conditions, the funds might be forced to sell portfolio securities to meet interest or principal payments at a time when market conditions would not be conducive to favorable selling prices for the securities.

**LOWER-RATED SECURITIES.** The Equity Funds may invest in lower-rated debt securities (commonly called "junk bonds"), which may be subject to certain risk factors to which other securities are not subject to the same degree. An economic downturn tends to disrupt the market for lower-rated bonds and adversely affect their values. Such an economic downturn may be expected to result in increased price volatility of lower-rated bonds and of the value of a fund's shares, and an increase in issuers' defaults on such bonds.

In addition, many issuers of lower-rated bonds are substantially leveraged, which may impair their ability to meet their obligations. In some cases, the securities in which a fund invests are subordinated to the prior payment of senior indebtedness, thus potentially limiting the fund's ability to recover full principal or to receive payments when senior securities are in default.

The credit rating of a security does not necessarily address its market value risk. In addition, ratings may, from time to time, be changed to reflect developments in the issuer's financial condition. Lower-rated securities held by a fund have speculative characteristics that are apt to increase in number and significance with each lower rating category.

When the secondary market for lower-rated bonds becomes increasingly illiquid, or in the absence of readily available market quotations for lower-rated bonds, the relative lack of reliable, objective data makes the responsibility of the Trustees to value such securities more difficult, and judgment plays a greater role in the valuation of portfolio securities.

Also, increased illiquidity of the market for lower-rated bonds may affect a fund's ability to dispose of portfolio securities at a desirable price.

In addition, if a fund experiences unexpected net redemptions, it could be forced to sell all or some of its lower-rated bonds without regard to their investment merits, thereby decreasing the asset base upon which the fund's expenses can be spread and possibly reducing the fund's rate of return. Prices of lower-rated bonds have been found to be less sensitive to interest rate changes and more sensitive to adverse economic changes and individual corporate developments than more highly rated investments. Certain laws or regulations may have a material effect on the fund's investments in lower-rated bonds.

**CONVERTIBLE SECURITIES.** The Equity Funds may invest in convertible securities, that is, bonds, notes, debentures, preferred stocks and other securities that are convertible into or exchangeable for another security, usually common stock. Convertible debt securities and convertible preferred stocks, until converted, have general characteristics similar to both debt and equity securities. Although to a lesser extent than with debt securities generally, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion or exchange feature, the market value of convertible securities typically increases or declines as the market value of the underlying common stock increases or declines, although usually not to the same extent. Convertible securities generally offer lower yields than non-convertible fixed income securities of similar quality because of their conversion or exchange features. Convertible bonds and convertible preferred stock typically have lower credit ratings than similar non-convertible securities because they are generally subordinated to other similar but non-convertible fixed income securities of the same issuer.

**RESTRICTED SECURITIES.** From time to time, the Equity Funds may purchase securities that are subject to restrictions on resale. While such purchases may be made at an advantageous price and offer attractive opportunities for investment not otherwise available on the open market, a fund may not have the same freedom to dispose of such securities as in the case of the purchase of securities in the open market or in a public distribution. These securities may often be resold in a liquid dealer or institutional trading market, but the fund may experience delays in its attempts to dispose of such securities. If adverse market conditions develop, the fund may not be able to obtain as favorable a price as that prevailing at the time the decision is made to sell. In any case, where a thin market exists for a particular security, public knowledge of a proposed sale of a large block may depress the market price of such securities.

**DERIVATIVE SECURITIES.** The Equity Funds may purchase derivative securities. Derivative securities may be used to attempt (1) to protect against possible changes in the market value of securities held in or to be purchased for a fund's portfolio resulting from securities markets or currency exchange rate fluctuations, (2) to protect a fund's unrealized gains in the value of its portfolio securities, (3) to facilitate the sale of such securities for investment purposes, (4) to manage the effective maturity or duration of a fund's portfolio, or (5) to establish a position in the derivatives markets as a temporary substitute for purchasing or selling particular securities. The gold and natural resource funds' and equity funds' ability to successfully use derivative securities will depend upon the Adviser's ability to predict pertinent market movements, which cannot be assured. Investing in derivative securities will increase transaction expenses and may result in a loss that exceeds the principal invested in the transactions.

Derivative securities have risk associated with them including possible default by the other party to the transaction, illiquidity and, to the extent the Adviser's view as to certain market movements is incorrect, the risk that the use of such derivative securities could result in losses greater than if they had not been used. Use of put and call options may result in losses to a fund. For example, selling call options may force the sale of portfolio securities at inopportune times or for lower prices than current market values. Selling call options may also limit the amount of appreciation a fund can realize on its investments or cause a fund to hold a security it might otherwise sell. The use of currency transactions can result in a fund incurring losses as a result of a number of factors including the

imposition of exchange controls, suspension of settlements, or the inability to deliver or receive a specified currency. The use of options and futures transactions entails certain other risks. In particular, the variable degree of correlation between price movements of futures contracts and price movements in the related portfolio position of a fund creates the possibility that losses on the hedging instrument may be greater than gains in the value of a fund's position. In addition, futures and options markets may not be liquid in all circumstances and certain over-the-counter options may have no markets. As a result, in certain markets, a fund might not be able to close out a transaction, and substantial losses might be incurred. However, the use of futures and options transactions for hedging should tend to minimize the risk of loss due to a decline in the value of a hedged position. At the same time, they tend to limit any potential gain that might result from an increase in value of such position. Finally, the daily variation margin requirement for futures contracts would create a greater ongoing potential financial risk than would purchases of options, where the exposure is limited to the cost of the initial premium. Losses resulting from the use of derivative securities would reduce net asset value, and possibly income, and such losses can be greater than if the derivative securities had not been used.

The funds' activities involving derivative securities may be limited by the requirements of Subchapter M of the Code for qualification as a regulated investment company.

**SPECIFIC FUND LIMITATIONS ON DERIVATIVE SECURITIES.** The All American Fund will limit its investments in derivative securities to purchasing stock index futures contracts or purchasing options thereon, purchasing and selling call options and purchasing put options on stock indexes, selling covered call options on portfolio securities, buying call options on securities the fund intends to purchase, buying put options on portfolio securities, and engaging in closing transactions for an identical option. The underlying value of all futures contracts shares may not exceed 35% of the All American Fund's total assets. The All American Fund will not borrow money to purchase futures contracts or options.

**OPTIONS.** All Equity Funds, except the Holmes Growth Fund, may purchase and sell options that are either listed on an exchange or quoted on Nasdaq. The Holmes Growth Fund may only purchase and sell options that are listed on an exchange. A fund will not purchase any option if, immediately thereafter, the aggregate market value of all outstanding options purchased by that fund would exceed 5% of that fund's total assets.

A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the issuer of the option the obligation to buy the underlying security, commodity, index, currency or other instrument at the exercise price. For instance, a fund's purchase of a put option on a security might be designed to protect its holdings in the underlying instrument (or, in some cases, a similar instrument) against a substantial decline in the market value by giving a fund the right to sell such instrument at the option exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the issuer the obligation to sell, the underlying instrument at the exercise price. A fund's purchase of a call option on a security, financial future, index currency or other instrument might be intended to protect a fund against an increase in the price of the underlying instrument that it intends to purchase in the future by fixing the price at which it may purchase such instrument. An "American style" put or call option may be exercised at any time during the option period while a "European style" put or call option may be exercised only upon expiration or during a fixed period prior thereto.

Exchange listed options are issued by a regulated intermediary such as the Options Clearing Corporation (OCC), which guarantees the performance of the obligations of the parties to such options. Over-the-counter (OTC) options are purchased from or sold to securities dealers, financial institutions or other parties (Counterparty(ies)) through direct bilateral agreement with the Counterparty. In contrast to exchange listed options, which generally have standardized terms and performance mechanics, all the terms of an OTC option are set by negotiation of the parties. Unless the parties provide for it, there is no central clearing or guaranty function in an OTC option.

The funds' ability to close out their position as a purchaser or seller of a put or call option is dependent, in part, upon the liquidity of the market for that particular option. Exchange listed options, because they are standardized and not subject to Counterparty credit risk, are generally more liquid than OTC options. There can be no guarantee that a fund will be able to close out an option position, whether in exchange listed options or OTC options, when desired. An inability to close out its options positions may reduce a fund's anticipated profits or increase its losses.

If the Counterparty to an OTC option fails to make or take delivery of the security, currency or other instrument underlying an OTC option it has entered into with a fund, or fails to make a cash settlement payment due in accordance with the terms of that option, a fund may lose any premium it paid for the option as well as any anticipated benefit of the transaction. Accordingly, the Adviser must assess the creditworthiness of each such Counterparty or any guarantor or credit enhancement of the Counterparty's credit to determine the likelihood that the terms of the OTC option will be satisfied.

The funds will realize a loss equal to all or a part of the premium paid for an option if the price of the underlying security, commodity, index, currency or other instrument security decreases or does not increase by more than the premium (in the case of a call option), or if the price of the underlying security, commodity, index, currency or other instrument increases or does not decrease by more than the premium (in the case of a put option).

**WRITING OPTIONS ON SECURITIES.** All Equity Funds may write “covered” put and call options. The funds may also enter into transactions to close out an investment in any put or call options. If a fund writes (i.e., sells) a call option, the premium received may serve as a partial hedge, to the extent of the option premium, against a decrease in the value of the underlying securities or instruments in a portfolio, or may increase the fund’s income. If a fund sells (i.e., issues) a put option, the premium that it receives may serve to reduce the cost of purchasing the underlying security, to the extent of the option premium, or may increase a fund’s capital gains. All options sold by a fund must be “covered” (i.e., the fund must be long when selling a call option). The securities or futures contract subject to the calls or puts must meet the asset segregation requirements described below as long as the option is outstanding. Even though a fund will receive the option premium to help protect it against loss or reduce its cost basis, an option sold by a fund exposes the fund during the term of the option to possible loss. When selling a call, a fund is exposed to the loss of opportunity to realize appreciation in the market price of the underlying security or instrument, and the transaction may require the fund to hold a security or instrument that it might otherwise have sold. When selling a put, a fund is exposed to the possibility of being required to pay greater than current market value to purchase the underlying security. The funds will not write any call or put options if, immediately afterwards, the aggregate value of a fund’s securities subject to outstanding “covered” call or put options would exceed 25% of the value of the fund’s total assets.

**WARRANTS.** The Equity Funds may invest in warrants. Warrants are different from options in that they are issued by a company as opposed to a broker and typically have a longer life than an option. When the underlying stock goes above the exercise price of the warrant the warrant is “in the money.” If the exercise price of the warrant is above the value of the underlying stock it is “out of the money.” “Out of money” warrants tend to have different price behaviors than “in the money” warrants. As an example, the value of an “out of the money” warrant with a long time to expiration generally declines less than a drop in the underlying stock price because the warrant’s value is primarily derived from the time component.

Most warrants are exchange traded. The holder of a warrant has the right, until the warrant expires, to sell an exchange traded warrant or to purchase a given number of shares of a particular issue at a specified price. Such investments can provide a greater potential for profit or loss than an equivalent investment in the underlying security. Prices of warrants do not necessarily move, however, in tandem with prices of the underlying securities particularly for shorter periods of time, and, therefore, may be considered speculative investments. The key driver to the movements in warrants are the fundamentals of the underlying company. Warrants, unlike options, may allow the holder to vote on certain issues and often are issued with certain anti-dilutive rights. Warrants pay no dividends. If a warrant held by a fund were not exercised by the date of its expiration, the fund would incur a loss in the amount of the cost of the warrant

**FUTURES CONTRACTS.** The Equity Funds may enter into financial futures contracts or purchase or sell put and call options on such futures as a hedge against anticipated interest rate, currency or equity market changes, for duration management and for risk management purposes. Futures are generally bought and sold on the commodities exchange where they are listed with payment of an initial variation margin as described below. The sale of a futures contract creates a firm obligation by a fund, as seller, to deliver to the buyer the specific type of financial instrument called for in the contract at a specific future time for a specified price (or, with respect to index futures and Eurodollar instruments, the net cash amount). Options on futures contracts are similar to options on securities except that an option on a futures contract gives the purchaser the right in return for the premium paid to assume a position in a futures contract and obligates the seller to deliver such position.

The use by the funds of financial futures and options thereon will in all cases be consistent with applicable regulatory requirements and in particular the rules and regulations of the CFTC and will be entered into only for bona fide hedging, risk management (including duration management) or other portfolio management purposes. Typically, maintaining a futures contract or selling an option thereon requires a fund to deposit with a financial intermediary as security for its obligations an amount of cash or other specified assets (initial margin) that initially is typically 1% to 10% of the face amount of the contract (but may be higher in some circumstances). Additional cash or assets (variation margin) may be required to be deposited thereafter on a daily basis as the marked-to-market value of the contract fluctuates. The purchase of an option on financial futures involves payment of a premium for the option without any further obligation on the part of the purchaser. If a fund exercises an option on a futures contract, it will be obligated to post initial margin (and potentially subsequent variation margin) for the resulting futures position just as it would for any futures position. Futures contracts and options thereon are generally settled by entering into an offsetting transaction, but there can be no assurance that the position can be offset, before settlement, at an advantageous price, nor that delivery will occur.

A fund will not enter into a futures contract or related option (except for closing transactions) if, immediately afterwards, the sum of the amount of its initial margin and premiums on open futures contracts and options thereon would exceed 5% of the fund's total assets (taken at current value). However, in the case of an option that is in the money at the time of the purchase, the in-the-money amount may be excluded in calculating the 5% limitation. The segregation requirements with respect to futures contracts and options thereon are described below.

**FOREIGN CURRENCY TRANSACTIONS.** The Equity Funds may engage in currency transactions with Counterparties in an attempt to hedge an investment in an issuer incorporated or operating in a foreign country or in a security denominated in the currency of a foreign country against a devaluation of that country's currency. Currency transactions include forward currency contracts, exchange listed currency futures, and exchange listed and OTC options on currencies. A fund's dealing in forward currency contracts and other currency transactions such as futures, options, and options on futures generally will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is entering into a currency transaction with respect to specific assets or liabilities of a fund, which will generally arise in connection with the purchase or sale of its portfolio securities or the receipt of income therefrom. Position hedging is entering into a currency transaction with respect to portfolio security positions denominated or generally quoted in that currency.

A fund may cross-hedge currencies by entering into transactions to purchase or sell one or more currencies that are expected to decline in value relative to other currencies in which a fund has (or expects to have) portfolio exposure.

To reduce the effect of currency fluctuations on the value of existing or anticipated holdings or portfolio securities, the Equity Funds may engage in proxy hedging. Proxy hedging may be used when the currency to which a fund's portfolio is exposed is difficult to hedge. Proxy hedging entails entering into a forward contract to sell a currency whose changes in value are generally considered to be linked to a currency in which some or all of a fund's portfolio securities are, or are expected to be denominated, and to buy U.S. dollars.

To hedge against a devaluation of a foreign currency, a fund may enter into a forward market contract to sell to banks a set amount of such currency at a fixed price and at a fixed time in the future. If, in foreign currency transactions, the foreign currency sold forward by a fund is devalued below the price of the forward market contract and more than any devaluation of the U.S. dollar during the period of the contract, a fund will realize a gain as a result of the currency transaction. In this way, a fund might reduce the impact of any decline in the market value of its foreign investments attributable to devaluation of foreign currencies.

A fund may sell foreign currency forward only as a means of protecting their foreign investments or to hedge in connection with the purchase and sale of foreign securities, and may not otherwise trade in the currencies of foreign countries. Accordingly, a fund may not sell forward the currency of a particular country to an extent greater than the aggregate market value (at the time of making such sale) of the securities held in its portfolio denominated in that particular foreign currency (or issued by companies incorporated or operating in that particular foreign country) plus an amount equal to the value of securities it anticipates purchasing less the value of securities it anticipates selling, denominated in that particular currency.

As a result of hedging through selling foreign currencies forward, in the event of a devaluation, it is possible that the value of a fund's portfolio would not depreciate as much as the portfolio of a fund holding similar investments that did not sell foreign currencies forward. Even so, the forward market contract is not a perfect hedge against devaluation because the value of a fund's portfolio securities may decrease more than the amount realized by reason of the foreign currency transaction. To the extent that a fund sells forward currencies that are thereafter revalued upward, the value of that fund's portfolio would appreciate to a lesser extent than the comparable portfolio of a fund that did not sell those foreign currencies forward. If, in anticipation of a devaluation of a foreign currency, a fund sells the currency forward at a price lower than the price of that currency on the expiration date of the contract, that fund will suffer a loss on the contract if the currency is not devalued, during the contract period, below the contract price. Moreover, it will not be possible for a fund to hedge against a devaluation that is so generally anticipated that the fund is not able to contract to sell the currency in the future at a price above the devaluation level it anticipates. It is possible that, under certain circumstances, a fund may have to limit its currency transactions to permit that fund to qualify as a regulated investment company under Subchapter M of the Code. Foreign currency transactions would involve a cost to the funds, which would vary with such factors as the currency involved, the length of the contact period and the market conditions then prevailing.

The funds will not attempt to hedge all their foreign investments by selling foreign currencies forward and will do so only to the extent deemed appropriate by the Adviser.

**USE OF SEGREGATED AND OTHER SPECIAL ACCOUNTS.** Many derivative securities, in addition to other requirements, require that the Equity Funds segregate liquid high grade assets with their custodian to the extent that the fund's obligations are not otherwise "covered" through ownership of the underlying security, financial instrument or currency. In general, either the full amount of any obligation of a fund to pay or deliver securities or assets must be covered at all times by the securities, instruments or currency required to be delivered, or subject to any regulatory restrictions, an amount of cash or liquid high grade debt securities at least equal to the current amount of the obligation must either be identified as being restricted in a fund's accounting records or physically segregated in a separate account at that fund's custodian. The segregated assets cannot be sold or transferred unless equivalent assets are substituted in their place or it is no longer necessary to segregate them. For the purpose of determining the adequacy of the liquid securities that have been restricted, the securities will be valued at market or fair value. If the market or fair value of such securities declines, additional cash or liquid securities will be restricted on a daily basis so that the value of the restricted cash or liquid securities, when added to the amount deposited with the broker as margin, equals the amount of such commitments by a fund.

**TEMPORARY DEFENSIVE INVESTMENTS.** For temporary defensive purposes during periods that, in the Adviser's opinion, present the funds with adverse changes in the economic, political or securities markets, the funds may seek to protect the capital value of its assets by temporarily investing up to 100% of its assets in: U.S. Government securities, short-term indebtedness, money market instruments, or other investment grade cash equivalents, each denominated in U.S. dollars or any other freely convertible currency; or repurchase agreements. When a fund is in a defensive investment position, it may not achieve its investment objective.

**U.S. GOVERNMENT SECURITIES**

U.S. Government obligations include securities, which are issued or guaranteed by the United States Treasury, by various agencies of the United States Government, and by various instrumentalities, which have been established or sponsored by the United States Government. U.S. Treasury obligations are backed by the "full faith and credit" of the U.S. Government. U.S. Treasury obligations include Treasury bills, Treasury notes, and Treasury bonds.

Agencies or instrumentalities established by the U.S. Government include the Federal Home Loan Bank, the Federal Land Bank, the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Student Loan Marketing Association. Also included is the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Financing Bank, the Federal Farm Credit Bank, the Federal Agricultural Mortgage Corporation, the Resolution Funding Corporation, the Financing Corporation of America and the Tennessee Valley Authority. Some of these securities are supported by the full faith and credit of the United States Government while others are supported only by the credit of the agency or instrumentality, which may include the right of the issuer to borrow from the United States Treasury. Securities issued by such agencies or instrumentalities are neither insured nor guaranteed by the U.S. Treasury.

**PORTFOLIO TURNOVER**

The Adviser buys and sells securities for a fund to accomplish the fund's investment objective. A fund's investment policy may lead to frequent changes in investments, particularly in periods of rapidly changing markets. A fund's investments may also be traded to take advantage of perceived short-term disparities in market values. A change in the securities held by a fund is known as "portfolio turnover."

A fund does not intend to use short-term trading as a primary means of achieving its investment objective. However, the fund's rate of portfolio turnover will depend on market and other conditions, and it will not be a limiting factor when portfolio changes are deemed necessary or appropriate by the Adviser. High turnover involves correspondingly greater commission expenses and transaction costs and increases the possibility that a fund would not qualify as a regulated investment company under Subchapter M of the Code. High turnover may result in a fund recognizing greater amounts of income and capital gains, which would increase the amount of income and capital gains that the fund must distribute to its shareholders in order to maintain its status as a regulated investment company and to avoid the imposition of federal income and excise taxes (see "Federal Income Taxes").

The portfolio turnover rate for the most recent fiscal years are as follows:

FUND	Fiscal Year Ended			
	June 30, 2006	June 30, 2007	June 30, 2008	December 31, 2008*
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All American Equity Fund	369%	223%	225%	205%
Gold and Precious Metals Fund	78%	72%	93%	61%
World Precious Minerals Fund	66%	54%	58%	27%
Global Resources Fund	157%	122%	133%	100%
China Region Fund	292%	208%	208%	117%
Tax Free Fund	19%	6%	11%	6%
Near-Term Tax Free Fund	33%	22%	8%	8%

\* For the six months ended December 31, 2008.

FUND	Fiscal Year Ended			
	October 31, 2006	October 31, 2007	October 31, 2008	December 31, 2008*
Holmes Growth Fund	290%	98%	140%	20%
Global MegaTrends Fund	75%	65%	92%	29%
Eastern European Fund	68%	68%	82%	11%
Global Emerging Markets Fund	136%	125%	83%	21%

\* For the two months ended December 31, 2008.

### PORTFOLIO HOLDINGS DISCLOSURE POLICY

It is the policy of the Trust to protect the confidentiality of all fund holdings and prevent the selective disclosure of nonpublic information about all fund portfolio holdings. The Trust publicly discloses holdings of the funds in accordance with regulatory requirements, such as periodic portfolio disclosure in filings with the Securities and Exchange Commission. Portfolio information is provided to the Trust's service providers and others who generally need access to such information in the performance of their contractual duties and responsibilities, such as the Trust's custodians, fund accountants, investment adviser, independent public accountants, attorneys, officers and trustees and each of their respective affiliates and advisers, and are subject to duties of confidentiality, including a duty not to trade on nonpublic information, imposed by law and/or contract.

There are numerous mutual fund evaluation services such as Standard & Poor's, Morningstar, or Lipper Analytical Services, that regularly analyze the portfolio holdings of mutual funds in order to monitor and report on various attributes including style, capitalization, maturity, yield, beta, etc. These services then distribute the results of their analysis to the public and/or paid subscribers. In order to facilitate the review of the funds by these services, the funds may distribute (or authorize their service providers to distribute) portfolio holdings to such services before its public disclosure is required as discussed above. These service providers must sign a written confidentiality agreement and must not distribute the portfolio holdings or results of the analysis to third parties, other departments, or persons who are likely to use the information for purposes of purchasing or selling the funds before the portfolio holdings or results of the analysis become public information.

The Adviser of the funds may periodically distribute a list of the issuers and securities that are covered by their research department as of a particular date. The list of issuers and securities may represent securities currently held by the funds and securities that may be purchased for the funds. In no case will a list specifically identify an issuer's securities as either currently held or anticipated to be held by the funds or identify funds' position sizes.

For press interviews, commentary, or reports on a media that result in immediate public dissemination, such as television or the funds' and/or Adviser's website(s), portfolio managers and other senior officers or spokespersons of the funds may disclose or confirm the ownership of any individual portfolio holding position. Once the portfolio holding is disclosed in an interview over such media, that holding will be deemed to be previously publicly disclosed in accordance with these disclosure policies.

Notwithstanding anything herein to the contrary, the funds' board of trustees and an appropriate officer of the funds and/or Adviser's legal department, or the funds' Chief Compliance Officer ("CCO") may, on a case-by-case basis, impose additional restrictions on the dissemination of portfolio information beyond those found in the Trust's disclosure policies. (For example, the funds may determine

to not provide purchase and sale information with respect to funds that invest in smaller capitalization companies or less liquid securities.)

The board has approved the Trust’s portfolio holdings disclosure policies and procedures and must approve any material change to such policies and procedures. The board oversees the monitoring of the policy, and exceptions to the policy must be approved by the Trust’s CCO. Any violation of the policies and procedures that constitutes a material compliance matter and any waiver or exception to the policies and procedures will be reported to the board.

### MANAGEMENT OF THE TRUST

The Trust’s board of trustees manages the business affairs of the Trust. The trustees establish policies and review and approve contracts and their continuance. The Agreement and Declaration of Trust provides that each trustee shall serve as a trustee of the Trust during the lifetime of this Trust and until its termination except as such trustee sooner dies, resigns or is removed. In addition, each trustee who is not an “interested person of the Trust shall be required to retire in accordance with the terms of any retirement policy then in effect that has been approved by a majority vote of all independent trustees. The current retirement policy provides that the retirement age for non-interested trustees is 72 years of age. Trustees also elect the officers on an annual basis who serve until their successors are elected and qualified, and select the trustees to serve as Audit Committee members and Nominating and Governance Committee members. The trustees and officers of the trust and their principal occupations during the past five years are set forth below. Except as otherwise indicated, the business address of each trustee and officer is 7900 Callaghan Road, San Antonio, Texas 78229.

The board has an Audit Committee and a Nominating and Governance Committee. The Audit Committee is responsible for monitoring the funds’ accounting policies, financial reporting and internal control system; monitoring the work of the funds’ independent accountants; and providing an open avenue of communication among the independent accountants, fund management and the board. Members of the Audit Committee are: J. Michael Belz, James F. Gaertner, Clark R. Mandigo, and Joe C. McKinney, all of whom are non-interested trustees. The Audit Committee has had three meetings since the Trust was organized. The Nominating and Governance Committee is primarily responsible for the identification and recommendation of individuals for board membership and for overseeing the administration of the Trust’s Governance Guidelines. The members of the Nominating and Governance Committee are: J. Michael Belz, James F. Gaertner, Clark R. Mandigo, and Joe C. McKinney, all of whom are non-interested trustees. The Nominating and Governance Committee has had three meetings since the Trust was organized. Pursuant to the Trust’s Nominating and Governance Committee Charter, shareholders may submit recommendations for board candidates by sending a resume of the candidate by U.S. mail or courier service to the Secretary of the Trust for the attention of the Chairman of the Nominating and Governance Committee.

### NON-INTERESTED TRUSTEES

NAME, ADDRESS, AND AGE	POSITION(S) HELD WITH TRUST	TERM OF OFFICE AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE	OTHER DIRECTORSHIPS HELD BY TRUSTEE
J. Michael Belz 7900 Callaghan Rd San Antonio, TX 78229 (56)	Trustee	November 1998 to present*	President and Chief Executive Officer of Catholic Life Insurance since 1984.	Thirteen	Director, Broadway National Bank from October 2003 to present.
James F. Gaertner 7900 Callaghan Rd San Antonio, TX 78229 (66)	Trustee	November 2002 to present*	President, Sam Houston State University from August 2001 to present.	Thirteen	Chairman of the Audit Committee, Tandy Brands Accessories, Inc. from October 1997 to present.
Clark R. Mandigo 7900 Callaghan Rd San Antonio, TX 78229 (65)	Trustee	May 1993 to present*	Restaurant operator, business consultant from 1991 to present.	Thirteen	None.
Joe C. McKinney 7900 Callaghan Rd	Trustee	October 2008 to present*	Vice Chairman. Broadway National Bank from	Thirteen	Director, Broadway National Bank from

NAME, ADDRESS, AND AGE	POSITION(S) HELD WITH TRUST	TERM OF OFFICE AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE	OTHER DIRECTORSHIPS HELD BY TRUSTEE
San Antonio, TX 78229 (63)			October 2002 to present.		October 2002 to present; Director, USAA Real Estate Company from September 2004 to present; Director, Luby's, Inc. from January 2003 to present.

\* These dates include service for a predecessor trust.

#### INTERESTED TRUSTEES

NAME, ADDRESS, AND AGE	POSITION(S) HELD WITH TRUST	TERM OF OFFICE AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE	OTHER DIRECTORSHIPS HELD BY TRUSTEE
Frank E. Holmes* 7900 Callaghan Rd San Antonio, TX 78229 (54)	Trustee, Chief Executive Officer, President Chief Investment Officer	January 1990 to present** August 1999 to present**	Director, Chief Executive Officer, and Chief Investment Officer of the Adviser. Since October 1989, Mr. Holmes has served and continues to serve in various positions with the Adviser, its subsidiaries, and the investment companies it sponsors.	Thirteen	Director of 71316 Ontario, Inc. from April 1987 to present and of F.E. Holmes Organization, Inc. from July 1978 to present.

\* Mr. Holmes is an "interested person" of the Trust by virtue of his positions with U.S. Global Investors, Inc.

\*\* This date includes service for a predecessor trust.

#### OFFICERS

NAME, ADDRESS, AND AGE	POSITION(S) HELD WITH TRUST	TERM OF OFFICE AND LENGTH OF TIME SERVED*	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
Frank E. Holmes 7900 Callaghan Rd San Antonio, TX 78229 (54)	President and Chief Executive Officer; Chief Investment Officer	January 1990 to present August 1999 to present	Director, Chief Executive Officer, and Chief Investment Officer of the Adviser. Since October 1989, Mr. Holmes has served and continues to serve in various positions with the Adviser, its subsidiaries, and the investment companies it sponsors.
Susan B. McGee 7900 Callaghan Rd San Antonio, TX 78229 (49)	Executive Vice President and General Counsel; Secretary	March 1997 to present;	President and General Counsel of the Adviser. Since September 1992, Ms. McGee has served and continues to serve in

			various positions with the Adviser, its subsidiaries, and the investment companies it sponsors.
Catherine A. Rademacher 7900 Callaghan Rd San Antonio, TX 78229 (49)	Treasurer	July 2004 to present	Chief Financial Officer of the Company since August 2004. Controller of the Adviser from April 2004 until August 2004. Associate with Resources Connection from July 2003 to February 2004.
James L. Love, Jr. 7900 Callaghan Rd San Antonio, TX 78229 (40)	Chief Compliance Officer	September 2007 to present	Chief Compliance Officer of Adviser since September 2007. Executive Director Executive Attorney from January 2003 to September 2007, Senior Counsel May 2002 to January 2003 with USAA.
Mark Carter 7900 Callaghan Rd. San Antonio, TX 78229 (41)	Vice President Shareholder Services	April 2008 to present	Vice President, Shareholder Services of the Adviser since April 2008, Operations Manager of the Adviser from April 2007 through March 2008. Transfer Operations Manager, Invesco AIM from 2004 through April 2007.
<b>NAME, ADDRESS, AND AGE</b>	<b>POSITION(S) HELD WITH TRUST</b>	<b>TERM OF OFFICE AND LENGTH OF TIME SERVED*</b>	<b>PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS</b>
T. Kelly Niland 7900 Callaghan Rd San Antonio, TX 78229 (47)	Vice President Investment Operations	December 2008 to present	Vice President of Investment Operations of the Adviser since January 2006. Fund Accounting Manager with AIM Investments from June 1992 to January 2006.
Susan K. Filyk 7900 Callaghan Rd San Antonio, TX 78229 (39)	Vice President Marketing	December 2008 to present	Director of Marketing of the Adviser since August 2008. Ms. Filyk has served and continues to serve in various positions with the Adviser, its subsidiaries, and the investment companies it sponsors. Sr. VP Marketing with Frost National Bank from May 1998 to August 2007.

\* These dates include service for a predecessor trust.

**DOLLAR RANGE  
OF EQUITY SECURITIES  
IN THE FUNDS HELD AS  
OF 12/31/2008**

**NON-INTERESTED TRUSTEES**

<b>J. Michael Belz</b>	
All American Equity Fund	None
Holmes Growth Fund	\$1-\$10,000
Global MegaTrends Fund	\$1-\$10,000
Gold and Precious Metals Fund	\$1-\$10,000
World Precious Minerals Fund	\$1-\$10,000
Global Resources Fund	\$1-\$10,000
Eastern European Fund	\$1-\$10,000
Global Emerging Markets Fund	\$1-\$10,000
China Region Fund	\$1-\$10,000
Tax Free Fund	None
Near-Term Tax Free Fund	None
U.S. Government Securities Savings Fund	\$1-\$10,000
U.S. Treasury Securities Cash Fund	None
<b>Clark Mandigo</b>	
All American Equity Fund	\$1-\$10,000
Holmes Growth Fund	\$50,001-100,000
Global MegaTrends Fund	\$1-\$10,000
Gold and Precious Metals Fund	\$1-\$10,000
World Precious Minerals Fund	\$1-\$10,000
Global Resources Fund	\$1-\$10,000
Eastern European Fund	\$1-\$10,000
Global Emerging Markets Fund	\$1-\$10,000
China Region Fund	\$1-\$10,000
Tax Free Fund	None
Near-Term Tax Free Fund	None
U.S. Government Securities Savings Fund	Over \$100,000
U.S. Treasury Securities Cash Fund	None
<b>James F. Gaertner</b>	
All American Equity Fund	None
Holmes Growth Fund	\$10,001-\$50,000
Global MegaTrends Fund	None
Gold and Precious Metals Fund	None
World Precious Minerals Fund	\$1-\$10,000
Global Resources Fund	\$1-\$10,000
Eastern European Fund	\$1-\$10,000
Global Emerging Markets Fund	None
China Region Fund	\$1-\$10,000
Tax Free Fund	None
Near-Term Tax Free Fund	\$10,001-\$50,000
U.S. Government Securities Savings Fund	None
U.S. Treasury Securities Cash Fund	None
<b>Joe C. McKinney</b>	
All American Equity Fund	None
Holmes Growth Fund	\$1-\$10,000
Global MegaTrends Fund	\$1-\$10,000
Gold and Precious Metals Fund	\$1-\$10,000
World Precious Minerals Fund	\$1-\$10,000
Global Resources Fund	\$1-\$10,000
Eastern European Fund	\$1-\$10,000
Global Emerging Markets Fund	\$1-\$10,000
China Region Fund	\$1-\$10,000
Tax Free Fund	\$1-\$10,000
Near-Term Tax Free Fund	None
U.S. Government Securities Savings Fund	\$1-\$10,000
U.S. Treasury Securities Cash Fund	None

None of the non-interested trustees, nor their immediate family members, own any shares in the Adviser, U.S. Global Brokerage, Inc. or a person directly or indirectly controlling, controlled by, or under common control with the Adviser or U.S. Global Brokerage, Inc.

<b>INTERESTED TRUSTEES</b>	<b>DOLLAR RANGE OF EQUITY SECURITIES IN THE FUNDS HELD AS OF 12/31/2008</b>
Frank E. Holmes	
All American Equity Fund	\$10,001-\$50,000
Holmes Growth Fund	\$10,001-\$50,000
Global MegaTrends Fund	\$10,001-\$50,000
Gold and Precious Metals Fund	\$10,001-\$50,000
World Precious Minerals Fund	\$10,001-\$50,000
Global Resources Fund	\$1-\$10,001
Eastern European Fund	None
Global Emerging Markets Fund	\$10,001-\$50,000
China Region Fund	\$10,001-\$50,000
Tax Free Fund	\$50,001-\$100,000
Near-Term Tax Free Fund	\$100,001-\$500,000
U.S. Government Securities Savings Fund	\$100,001-\$500,000
U.S. Treasury Securities Cash Fund	\$500,001-\$1,000,000

The following table provides information on compensation paid by U.S. Global Investors Funds to each of the trustees and the Trust's Chief Compliance Officer. As shown in the table, the Trust is not responsible for compensation of the interested trustee of the Trust.

<b>NON-INTERESTED TRUSTEES</b>	<b>TOTAL COMPENSATION FROM U.S. GLOBAL INVESTORS FUNDS(1)(2)</b>
J. Michael Belz, Trustee	\$ 44,500
James F. Gaertner, Trustee	\$ 47,000
Clark R. Mandigo, Trustee	\$ 49,000
Joe C. McKinney, Trustee	\$ 42,000
<b>INTERESTED TRUSTEE</b>	
Frank E. Holmes, Trustee, Chief Executive Officer, Chief Investment Officer	None
<b>CHIEF COMPLIANCE OFFICER</b>	
James L. Love, Jr.	\$ 154,942

- (1) U.S. Global Investors Funds and U.S. Global Accolade Funds merged into a Delaware statutory trust on October 1, 2008. The compensation reflected for the Non-Interested Trustees is what will be paid to the trustees under the current compensation agreements assuming that there are four quarterly meetings. The compensation shown for the Chief Compliance Officer is for calendar year 2008 and includes amounts paid from predecessor trusts.
- (2) The U.S. Global Investors Funds do not provide any pension or retirement benefit for the trustees.

### CODE OF ETHICS

The Trust, the Adviser, and the Distributor have each adopted a Code of Ethics (the "Code") in accordance with Rule 17j-1 under the Investment Company Act of 1940 (the "1940 Act"). The Code allows access persons to purchase and sell securities for their own accounts, subject to certain reporting requirements and trading restrictions. The Code prohibits all persons subject to the Code from purchasing or selling any security if such person knows or reasonably should know at the time of the transaction that the security was being purchased or sold or was being considered for such purchase or sale by a fund for a certain prescribed period of time. The foregoing description is qualified in its entirety by the Code, a copy of which has been filed with the Securities and Exchange Commission.

## PROXY VOTING POLICIES

Proxies for each fund's portfolio securities are voted in accordance with the Adviser's proxy voting policies and procedures, which are set forth below. Each fund's proxy voting record, including information regarding how each fund voted proxies relating to portfolio securities held by the fund, for the twelve month period ended June 30, 2008, is available without charge, upon request, by calling 1-800-US-FUNDS, and on the SEC's website at <http://www.sec.gov>.

### VOTING PROCEDURES

The Trust has retained Glass Lewis & Co. ("Glass Lewis"), a proxy voting and consulting firm, to receive proxy voting statements, provide information and research, make proxy vote recommendations, and handle the administrative functions associated with the voting of fund proxies. The proxy voting guidelines developed and maintained by Glass Lewis are an extensive list of common proxy voting issues and its voting recommendations. A copy of the guidelines can be obtained by calling 1-800-USFUND and on the funds' website at [www.usfunds.com](http://www.usfunds.com). Common proxy voting issues in the guidelines include, but are not limited to, the following:

Election of Auditors- considering factors such as auditors financial interest or association with company, poor accounting practices, and fees paid for non-audit services.

Election of Directors - considering factors such as attendance of board meetings, service on other boards, failure to act on shareholder proposals, lack of audit, compensation, or nominating committee, correlation between CEO pay and company performance.

Proxy Contest - considering factors such as performance of the target company, managements track record, and reimbursing solicitation expenses.

Takeover Defenses - considering factors such as poison pills, shareholder ability to call special meetings, and supermajority vote requirements.

Merger and Corporate Restructurings - considering factors such as valuation, market reaction, strategic rationale, negotiations, conflicts of interest, and governance

State of Incorporation- considering factors such as governance provisions, economic benefits, and jurisdictional law.

Capital Structure - considering factors such as common stock authorization, dual-class stock authorization, and preferred stock authorization.

Executive and Director Compensation - considering factors such as equity compensation plans, poor pay practices, employee stock purchase plans, and option backdating practices.

While Glass Lewis makes the proxy vote recommendations, the Adviser retains the ultimate authority on deciding how to vote. However, in general, it is the Adviser's policy to vote in accordance with Glass Lewis. A decision to override Glass Lewis' recommendation is made by the Adviser's Proxy Review Committee. In reviewing and evaluating Glass Lewis' recommendations, the Proxy Review Committee may consider information from other sources, including the recommendation of a portfolio team member as well as the fundamental and statistical models used by the portfolio department when making investment decisions. One of the primary factors the committee considers when determining the desirability of investing in a particular company is the quality and depth of that company's management. Accordingly, the recommendation of management on any issue is a factor that the committee considers in determining how proxies should be voted. As a matter of practice, the committee will vote in accordance with management's position. However, each issue is individually evaluated and the committee will consider its effect on the investment merits of owning that company's shares. With respect to international securities, the committee is mindful of the varied market practices and environments relating to corporate governance in the local regions. The committee's experience as a money manager enables its analysts to understand the complexities of the regions in which they invest and to skillfully analyze the proxy issues relevant to the regions. The committee may decide that it is in a fund's best interest to not vote the shares of foreign companies. All votes contrary to Glass Lewis's recommendation are reported to the board of trustees.

## CONFLICT OF INTEREST

If the Proxy Review Committee determines that, through reasonable inquiry, an issue raises a potential material conflict of interest, the Proxy Review Committee will follow the recommendations of Glass Lewis except as follows. If the committee believes that it would be in the best interest of the Trust to vote a proxy other than according to the recommendation of Glass Lewis, the committee shall document in writing the basis supporting its determination. A summary of all such votes shall be presented to the board of trustees at the next regularly scheduled meeting of the board.

## PRINCIPAL HOLDERS OF SECURITIES

As of January 30, 2009, the officers and trustees of the Trust, as a group, owned less than 1% of the outstanding shares of each fund. The funds are aware of the following entities or persons who owned more than 5% of the outstanding shares of the fund as of January 30, 2009.

FUND	SHAREHOLDERS	PERCENTAGE OWNED	TYPE OF OWNERSHIP
All American Equity Fund	Customers of Charles Schwab & Company, Inc.(1)	5.47 %	Beneficial
Holmes Growth Fund	Customers of Charles Schwab & Company, Inc.(1)	5.96 %	Beneficial
Global MegaTrends Fund	Customers of Charles Schwab & Company, Inc.(1)	32.16 %	Beneficial
	National Financial Services Corporation (2)	5.96 %	Beneficial
	Peoples Bank	11.45 %	Beneficial
Gold and Precious Metals Fund	Customers of Charles Schwab & Company, Inc.(1)	20.56 %	Beneficial
	National Financial Services Corporation (2)	16.00 %	Beneficial
World Precious Minerals Fund	Customers of Charles Schwab & Company, Inc.(1)	26.89 %	Beneficial
	National Financial Services Corporation (2)	20.77 %	Beneficial
Global Resources Fund	Ameritrade, Inc. (3)	5.82 %	Beneficial
	Customers of Charles Schwab & Company, Inc.(1)	33.43 %	Beneficial
	National Financial Services Corporation (2)	23.01 %	Beneficial
Eastern European Fund	Ameritrade, Inc. (3)	7.79 %	Beneficial
	Customers of Charles Schwab & Company, Inc.(1)	36.01 %	Beneficial
	National Financial Services Corporation (2)	30.19 %	Beneficial
Global Emerging Markets Fund	Ameritrade, Inc. (3)	6.44 %	Beneficial
	Customers of Charles Schwab & Company, Inc.(1)	14.63 %	Beneficial
	National Financial Services Corporation (2)	12.02 %	Beneficial
China Region Fund	Ameritrade, Inc. (3)	6.52 %	Beneficial
	Customers of Charles Schwab & Company, Inc.(1)	13.94 %	Beneficial
	National Financial Services Corporation (2)	13.69 %	Beneficial
Tax Free Fund	Ameritrade, Inc. (3)	6.59 %	Beneficial
	D. Joseph Demis	7.84 %	Record
	U.S. Global Investors, Inc.	9.20 %	Record
Near-Term Tax Free Fund	Frata L.L.C.	8.40 %	Record
	U.S. Global Investors, Inc.	10.42 %	Record
U.S. Government Securities Savings Fund	Jean Rogers-Winchell	6.74 %	Record
	U.S. Global Investors, Inc.	5.28 %	Record

- (1) Charles Schwab & Company, Inc., a broker/dealer located at 101 Montgomery Street, San Francisco, CA 94104-4122, has advised that no individual clients owns more than 5% of the fund.
- (2) National Financial Services Corp., a broker/dealer located at Church Street Station, New York, NY 10008-3908, has advised that no individual client owns more than 5% of the fund.
- (3) Ameritrade, Inc., a broker/dealer located at P.O. Box 2226, Omaha, NE 68103-2226, has advised that no individual client owns more than 5% of the fund.

## INVESTMENT ADVISORY AND OTHER SERVICES

The investment adviser to the funds is U.S. Global Investors, Inc. (Adviser), a Texas corporation, pursuant to an advisory agreement dated as of October 1, 2008, Frank E. Holmes, Chief Executive Officer and a Director of the Adviser, as well as a Trustee, President and Chief Executive Officer of the Trust, beneficially owns more than 25% of the outstanding voting stock of the Adviser and may be deemed to be a controlling person of the Adviser.

The funds listed below paid the following management fees (net of expenses paid by the Adviser or fee waivers) for the most recent fiscal years:

FUND	Fiscal Year Ended			
	June 30, 2006	June 30, 2007	June 30, 2008	December 31, 2008*
All American Equity Fund	\$ 65,912	\$ 107,349	\$ 137,008	\$ 16,201
Gold and Precious Metals Fund	\$ 878,795	\$ 1,672,967	\$ 1,629,448	\$ 620,304
World Precious Minerals Fund	\$ 3,737,516	\$ 6,130,468	\$ 6,254,087	\$ 1,719,946
Global Resources Fund	\$ 5,819,998	\$ 7,387,016	\$ 9,303,615	\$ 2,844,048
China Region Fund	\$ 565,352	\$ 997,748	\$ 1,431,338	\$ 269,103
Tax Free Fund	\$ 0	\$ 0	\$ 0	\$ 0
Near-Term Tax Free Fund	\$ 0	\$ 0	\$ 0	\$ 0
U. S. Government Securities Savings Fund	\$ 1,067,038	\$ 1,205,557	\$ 1,115,479	\$ 394,228
U.S. Treasury Securities Cash Fund	\$ 575,002	\$ 570,814	\$ 489,483	\$ 71,986

\* For the six months ended December 31, 2008.

The funds listed below paid the following management fees (net of expenses paid by the Adviser or fee waivers) for the most recent fiscal years:

FUND	Fiscal Year Ended			
	October 31, 2006	October 31, 2007	October 31, 2008	December 31, 2008*
Holmes Growth Fund	\$ 664,825	\$ 630,258	\$ 572,815	\$ 13,084
Global MegaTrends Fund	\$ 166,549	\$ 163,258	\$ 244,407	\$ 0
Eastern European Fund	\$ 17,019,935	\$ 17,816,543	\$ 15,349,211	\$ 566,203
Global Emerging Markets Fund	\$ 87,692	\$ 396,485	\$ 420,020	\$ 0

\* For the two months ended December 31, 2008.

The Adviser, in connection with the Eastern European Fund and Global Emerging Markets Fund, has entered into an agreement whereby the Adviser pays a fee of 0.125% to Charlemagne Capital (IOM) Limited for providing non-discretionary advisory services to the Adviser. A fund will not be responsible for Charlemagne Capital (IOM) Limited's fee.

Prior to November 7, 2008, Charlemagne Capital (IOM) Limited provided subadvisory services to the Eastern European Fund and Global Emerging Markets Fund. On November 7, 2008, the Adviser took over the day-to-day management of the funds.

Prior to October 1, 2007, Leeb Capital Management, Inc. provided subadvisory services to the Global MegaTrends Fund. On October 1, 2007, the Adviser assumed day-to-day management of the fund.

The Adviser paid the subadvisers the following subadvisory fees (net of any participation in expense reimbursement and fee waivers):

FUND	Fiscal Year Ended			
	October 31, 2006	October 31, 2007	October 31, 2008	December 31, 2008*
Global MegaTrends Fund	\$ 83,275	\$ 73,771	\$ 0	\$ 0
Eastern European Fund	\$ 8,509,968	\$ 8,908,301	\$ 7,674,606	\$ 162,245
Global Emerging Markets Fund	\$ 47,832	\$ 216,264	\$ 229,102	\$ 0

\*For the two months ended December 31, 2008.

The Trust pays the Adviser a separate management fee for each fund in the Trust. The Adviser's fee may be reduced if the assets of certain funds reach a certain level and this reduction is reflected in the Advisory Fee Schedule below. In addition, the Advisory fee for certain funds may be adjusted up or down by 0.25% based upon the fund's performance relative to the cumulative performance of its benchmark index and hurdle rate as reflected in the Performance Fee Schedule below. The Advisory fee is paid monthly.

#### BASE ADVISORY FEE SCHEDULE

NAME OF FUND	ANNUAL PERCENTAGE OF AVERAGE DAILY NET ASSETS
All American Equity Fund	0.80% ≤ \$500,000,000; 0.75% > \$500,000,000
Holmes Growth Fund	1.00%
Global MegaTrends Fund	1.00%
Gold and Precious Metals Fund	0.90% ≤ \$500,000,000; 0.85% > \$500,000,000
World Precious Minerals Fund	1.00% ≤ \$500,000,000; 0.95% \$500,000,001 - \$1,000,000,000; 0.90% > 1,000,000,000
Global Resources Fund	0.95% ≤ \$500,000,000; 0.90% \$500,000,001 - \$1,000,000,000; 0.85% > 1,000,000,000
Eastern European Fund	1.25%
Global Emerging Markets Fund	1.375%
China Region Fund	1.25%
Tax Free Fund	0.75% ≤ \$250,000,000; 0.70% > \$250,000,000
Near-Term Tax Free Fund	0.50%
U.S. Government Securities Savings Fund	0.50% ≤ \$250,000,000; 0.375% > \$250,000,000
U.S. Treasury Securities Cash Fund	0.50% ≤ \$250,000,000; 0.375% > \$250,000,000

The Adviser has contractually limited total fund operating expenses (exclusive of acquired fund fees, and expenses, extraordinary expenses, taxes, brokerage commissions and interest ) to not exceed 1.75% for the All American Fund, 1.75% for the Holmes Growth Fund, 1.85% for the Global MegaTrends Fund, 1.50% for the Gold and Precious Metals Fund, 1.50% for the World Precious Minerals Fund, 1.50% for the Global Resources Fund, 2.25% for the Eastern European Fund, 2.50% for the Global Emerging Markets Fund, 2.00% for the China Region Fund, 0.70% for the Tax Free Fund, 0.45% for the Near-Term Tax Free Fund, 0.45% for the U.S. Government Securities Savings Fund, and 1.00% for the U.S. Treasury Securities Cash Fund on an annualized basis through September 30, 2009, and until such later date as the Adviser determines.

The base advisory fee for the funds listed above may be adjusted up or down by 0.25% based upon the fund's performance relative to the cumulative performance of its benchmark index and hurdle rate. The chart below reflects each fund's base advisory fee, its relative benchmark, and hurdle rate.

#### PERFORMANCE FEE SCHEDULE

	Base Advisory Fee	Benchmark	Hurdle Rate	Base Advisory Fee Range With Performance Fee Adjustment
All American Fund	0.80%	S&P 500 Index	+/- 5%	0.55%-1.05%
Holmes Growth Fund	1.00%	S&P Composite 1500 Index	+/- 5%	0.75%-1.25%
Global MegaTrends Fund	1.00%	S&P 500 Index	+/- 5%	0.75%-1.25%
Gold and Precious Metals Fund	0.90%	FTSE Gold Mines Index	+/- 5%	0.65%-1.15%
World Precious Minerals Fund	1.00%	NYSE Arca Gold Miners Index	+/- 5%	0.75%-1.25%
Global Resources Fund	0.95%	Morgan Stanley Commodity Related Equity Index	+/- 5%	0.70%-1.20%
Eastern European Fund	1.25%	MSCI Emerging Markets Europe 10/40 Index (Net Total Return)	+/- 5%	1.00%-1.50%
Global Emerging Markets Fund	1.375%	MSCI Emerging Markets Net Total Return Index	+/- 5%	1.125%-1.625%
China Region Fund	1.25%	Hang Seng Composite Index		1.00%-1.50%
Tax Free Fund	0.75%	n/a		0.75%
Near-Term Tax Free Fund	0.50%	n/a		0.50%
Government Securities Savings Fund	0.50%	n/a		0.50%
Treasury Securities Cash Fund	0.50%	n/a		0.50%

The advisory fees for the Tax Free Fund, Near-Term Tax Free Fund, U.S. Government Securities Savings Fund, and U.S. Treasury Securities Cash Fund do not have a performance fee adjustment.

A performance fee, or fulcrum fee, is designed to reward the Adviser for fund performance that exceeds a fund's designated benchmark or penalize the Adviser for fund performance which is lower than a fund's designated benchmark. A fund's cumulative performance is compared to that of its designated benchmark over a rolling 12-month period. When the difference between a fund's performance and the performance of its designated benchmark is less than 5% (this is known as the hurdle rate) there will be no adjustment to the base advisory fee. This is often referred to as the null zone. If a fund's cumulative performance exceeds by 5% or more (hurdle rate) the performance of its designated benchmark, the base advisory fee will be increased by 0.25%. If a fund's cumulative performance falls below its designated benchmark by 5% or more, the base advisory fee will be decreased by 0.25%. The chart reflects the minimum and maximum advisory fee applicable to each fund. Certain funds are subject to breakpoints in the base advisory fee as noted in the Base Advisory Fee Schedule section.

The performance fee adjustment will be effective October 1, 2009.

The investment advisory agreement will continue in effect from year to year with respect to a fund only if the agreement is approved at least annually both (i) by a vote of a majority of the outstanding voting securities of such fund (as defined in the 1940 Act) or by the board of trustees of the Trust, and (ii) by a vote of a majority of the trustees who are not parties to the advisory agreement or "interested persons" of any party thereto (the "Independent Trustees"), cast in person at a meeting called for the purpose of voting on such approval.

The advisory agreement may be terminated on 60 days' written notice by either party and will terminate automatically if it is assigned.

The Adviser may, out of profits derived from its management fee, pay certain financial institutions (which may include banks, securities dealers and other industry professionals) a "servicing fee" and other non-cash compensation for performing certain administrative servicing functions for fund shareholders to the extent these institutions are allowed to do so by applicable statute, rule or regulation. These payments and compensation are in addition to the fees paid by the funds. These fees will be paid periodically and will generally be based on a percentage of the value of the institutions' client fund shares. Additional cash payments may be made by the Adviser or Distributor to intermediaries that provide marketing support and/or access to sales meetings, sales representatives and management representatives of the intermediaries.

From time to time, the Adviser or U.S. Global Brokerage, Inc. may also pay non-cash compensation to the sales representatives of intermediaries in the form of (i) occasional gifts; (ii) occasional meals, tickets or other entertainment; and/or (iii) sponsorship support of regional or national events of intermediaries.

In addition to advising client accounts, the Adviser may invest in securities for their own accounts. The Adviser has adopted policies and procedures intended to minimize or avoid potential conflicts with their clients when trading for their own accounts. The investment objectives and strategies of the Adviser are different from those of its clients, emphasizing venture capital investing, private placement arbitrage, and speculative short-term trading. The Adviser uses a diversified approach to venture capital investing. Investments typically involve early-stage businesses seeking initial financing as well as more mature businesses in need of capital for expansion, acquisitions, management buyouts, or recapitalization. Overall, the Adviser invests in start-up companies in the natural resources or technology fields.

#### **ADMINISTRATIVE SERVICES AGREEMENT**

Under a separate written agreement, the Adviser provides day-to-day administrative services to the Trust including preparing compliance materials pursuant to Rule 38a-1 of the 1940 Act to improve overall compliance by the Trust and its various agents; arranging for the preparation and filing for the Trust of all required tax returns; preparing and filing the periodic updating of the Trust's prospectus and statement of additional information; preparing and filing, or overseeing the preparation and filing of, any currently required or to be required reports filed with the Securities and Exchange Commission and other regulatory and self-regulatory authorities including, but not limited to, preliminary and definitive proxy materials, post-effective amendments to the Registration Statement, semi-annual reports on Form N-SAR, Form N-CSR, Form N-Q, Form N-PX, and notices pursuant to Rule 24f-2 under the 1940 Act; and preparing and filing any regulatory reports as required by any regulatory agency. Monthly, the Adviser receives an administrative fee from the funds for these services that is calculated at an average annual rate of 0.08% on the monthly average net asset of each fund.

The Administrative Services Agreement was effective October 1, 2008. The funds paid the following administrative fees (net of expenses paid by the Adviser or fee waivers) for the fiscal years indicated:

<b>FUND</b>	<b>Fiscal Year Ended December 31, 2008*</b>
All American Equity Fund	\$ 3,408
Gold and Precious Metals Fund	\$ 30,259
World Precious Minerals Fund	\$ 62,904
Global Resources Fund	\$ 112,737
China Region Fund	\$ 8,111
Tax Free Fund	\$ 0
Near-Term Tax Free Fund	\$ 0
U. S. Government Securities Savings Fund	\$ 77,022
U.S. Treasury Securities Cash Fund	\$ 24,867

\*For the six months ended December 31, 2008.

<b>FUND</b>	<b>Fiscal Year Ended October 31, 2008</b>	<b>Fiscal Year Ended December 31, 2008*</b>
Holmes Growth Fund	\$ 2,558	\$ 4,350
Global MegaTrends Fund	\$ 1,879	\$ 0
Eastern European Fund	\$ 31,241	\$ 46,528
Global Emerging Markets Fund	\$ 925	\$ 0

\* For the two months ended December 31, 2008.

The Trust pays all other expenses for its operations and activities. Each of the funds of the Trust pays its allocable portion of these expenses. The expenses borne by the Trust include the charges and expenses of any transfer agents and dividend disbursing agents, custodian fees, legal and auditors' expenses, bookkeeping and accounting expenses, brokerage commissions for portfolio transactions, taxes, if any, the advisory fee, extraordinary expenses, expenses of issuing and redeeming shares, expenses of shareholder and trustee meetings, expenses of preparing, printing and mailing proxy statements, reports and other communications to shareholders, expenses of registering and qualifying shares for sale, fees of trustees who are not "interested persons" of the Adviser, expenses of attendance by officers and trustees at professional meetings of the Investment Company Institute, the Mutual Fund Education Alliance or similar organizations, and membership or organization dues of such organizations, expenses of preparing and setting in type the prospectus and periodic reports and expenses of mailing them to current shareholders, fidelity bond premiums, cost of maintaining the books and records of the Trust, and any other charges and fees not specified.

#### **DISTRIBUTION AGREEMENT AND DISTRIBUTION PLAN**

U.S. Global Brokerage, Inc., 7900 Callaghan Road, San Antonio, Texas 78229, a subsidiary of the Adviser (U.S. Global Brokerage), is the principal underwriter and agent for distribution of the funds' shares. U.S. Global Brokerage is obligated to use all reasonable efforts, consistent with its other business, to secure purchasers for the funds' shares, which are offered on a continuous basis.

U.S. Global Brokerage markets the fund and distributes each fund's shares pursuant to a distribution agreement between the Trust and U.S. Global Brokerage (Distribution Agreement). Under the Distribution Agreement, U.S. Global Brokerage may enter into agreements with selling brokers, financial planners and other financial representatives for the sale of the funds' shares. Following such sales, a fund will receive the net asset value per share. Pursuant to the Distribution Agreement, the Trust is responsible for the payment of all fees and expenses (i) in connection with the preparation, setting in type and filing of any registration statement, Prospectus and Statement of Additional Information under the 1933 Act and amendments for the issue of its shares, (ii) in connection with the registration and qualification of shares for sale in the various states in which the officers of the Trust shall determine to be advisable (including registering the Trust as a broker or dealer or any officers of the Trust as agent or salesperson in any state); (iii) of preparing, setting in type, printing and mailing any report or other communication to shareholders of the Trust in their capacity as such, and (iv) of preparing, setting in type, printing and mailing Prospectuses, SAIs and any supplements thereto sent to existing shareholders.

The Equity Funds have adopted a compensation Distribution Plan pursuant to Rule 12b-1 of the 1940 Act (Distribution Plan). The Distribution Plan allows the funds to pay no more than 0.25% to offset expenditures in connection with sales and promotional services related to the distribution of fund shares, including personal services provided to prospective and existing fund shareholders, and includes the costs of: printing and distribution of prospectuses and promotional materials, making slides and charts for presentations, assisting shareholders and prospective investors in understanding and dealing with the funds, and travel and out-of-pocket expenses (e.g., copy and long distance telephone charges) related thereto and fees paid to financial service firms related to the distribution of

fund shares. U.S. Global Brokerage will receive payment of 0.25% of a fund's average daily net assets even if they spent less than this amount on distribution expenses. Pursuant to the Distribution Plan, the Adviser is paid for certain sales related compensation bonuses paid by the Adviser to its employees for sales of fund shares. The Adviser pays a higher bonus to its employees for sales of the Holmes Growth Fund and the Global MegaTrends Fund. Notwithstanding the above and subject to and calculated in accordance with the Rules of Fair Practice of the NASD, if during any annual period the total of (i) the compensation payable to the distributor and (ii) amounts payable under the Trust's Distribution Plan exceeds 0.25% of a fund's average daily net assets, the distributor will rebate that portion of its fee necessary to result in the total of (i) and (ii) above not exceeding 0.25% of the fund's average daily net assets.

The payment of compensation is authorized pursuant to the Distribution Plan and is contingent upon the continued effectiveness of the Distribution Plan. Expenses that the funds incur pursuant to the Distribution Plan are reviewed quarterly by the board of trustees. The Distribution Plan is reviewed annually by the board of trustees as a whole, and the trustees who are not "interested persons" as that term is defined in the 1940 Act and who have no direct or indirect financial interest in the operation of the Distribution Plan (Qualified Trustees). In their review of the Distribution Plan, the board of trustees, as a whole, and the Qualified Trustees determine whether, in their reasonable business judgment and considering their fiduciary duties, there is a reasonable likelihood that the Distribution Plan will benefit the funds and their shareholders. The Distribution Plan may be terminated with respect to a fund at any time by vote of a majority of the Qualified Trustees, or by a majority vote of the outstanding voting securities of the fund.

The Distribution Agreement and Distribution Plan continue in effect from year to year, provided continuance is approved at least annually by either (i) the vote of a majority of the trustees of the Trust, or by the vote of a majority of the outstanding voting securities of the Trust, and (ii) the vote of a majority of the Qualified Trustees of the Trust; however, the Distribution Agreement may be terminated at any time by vote of a majority of the Qualified Trustees, or by vote of a majority of the outstanding voting securities of the Trust, on not more than sixty (60) day written notice by the Trust. For these purposes, the term "vote of a majority of the outstanding voting securities" is deemed to have the meaning specified in the 1940 Act and the rules enacted hereunder.

U.S. Global Brokerage, the principal underwriter for distribution of the funds' shares, and its affiliated persons, including Frank Holmes, a trustee of the Trust, have a direct or indirect financial interest in the operation of the funds' Distribution Plan and related Distribution Agreement.

Prior to October 1, 2008, the following funds had adopted a Rule 12b-1 reimbursement plan. Expenses in connection with the plan paid for the period November 1, 2007 through September 30, 2008, are set forth in the table below.

NAME OF FUND	ADVERTISING & LITERATURE	PROSPECTUS PRINTING & MAILING	DISTRIBUTION FEES	COMPENSATION		POSTAGE & MAILING	COMPENSATION TO SALES PERSONNEL
				TO BROKER/ DEALERS	TRAVEL AND PROMOTION EXPENSES		
Holmes Growth Fund	\$14,983	\$1,935	\$5,500	\$16,818	\$5,087	\$62	\$1,043
Global MegaTrends Fund	\$51,069	\$1,542	-	\$31,399	\$24,702	\$58	\$24,260
Eastern European Fund	\$30,944	\$7,459	\$5,500	\$2,504,824	\$12,475	\$58	\$83,461
Global Emerging Markets Fund	\$16,089	\$914	-	\$42,744	\$7,482	\$58	\$1,625

Effective October 1, 2008, the following funds adopted a 12b-1 compensation plan. Expenses in connection with the Rule 12b-1 compensation plan from October 1, 2008 through December 31, 2008, are set forth in the table below:

NAME OF FUND	ADVERTISING & LITERATURE	PROSPECTUS PRINTING & MAILING	DISTRIBUTIO N FEES	COMPENSATION		TRAVEL AND PROMOTION EXPENSES	POSTAGE & MAILING	COMPENSATION TO SALES PERSONNEL
				TO BROKER/ DEALERS				
All American Equity Fund	\$3,422	\$268	-	\$3,914		\$2,872	-	-
Holmes Growth Fund	\$3,488	\$373	-	\$1,858		\$3,077	-	-
Global MegaTrends Fund	\$6,749	\$686	-	\$6,493		\$9,903	-	-
Gold and Precious Metals Fund	\$8,883	\$1,322	-	\$47,248		\$15,443	-	-
World Precious Minerals Fund	\$8,406	\$1,672	-	\$172,999		\$3,903	-	-
Global Resources Fund	\$4,658	\$2,461	-	\$403,846		\$18,541	-	-
Eastern European Fund	\$8,377	\$1,605	-	\$109,120		\$2,872	-	-
Global Emerging Markets Fund	\$6,847	\$933	-	\$1,714		\$2,872	-	-
China Region Fund	\$4,093	\$447	-	\$15,064		\$2,427	-	-

U.S. Global Brokerage received \$966,893, or 0.25% of each fund's average daily net assets for the period October 1, 2008 through December 31, 2008. This amount is more than the amount reflected in the chart above.

#### TRANSFER AGENCY AGREEMENT

The transfer agency agreement with the Trust provides for each fund to pay United Shareholder Services, Inc. (USSI) the following: an annual fee of \$10,509.32 per fund and \$15.11 per account for the All American Fund, the Holmes Growth Fund, the Global MegaTrends Fund, the Gold and Precious Metals Fund, the World Precious Minerals Fund, the Global Resources Fund, the Eastern European Fund, the Global Emerging Markets Fund, the China Region Fund; \$15.13 per account for the Tax Free Fund and the Near-Term Tax Free Fund; and \$21.20 per account for the U.S. Government Securities Savings Fund and the U.S. Treasury Securities Cash Fund. In addition, the funds will bear transaction-related expenses, other miscellaneous expenses, and out-of-pocket expenses. In connection with obtaining and/or providing administrative services to the beneficial owners of Trust shares through broker-dealers, banks, trust companies and similar institutions which provide such services, the Trust has adopted a Shareholder Services Plan. The Shareholder Services Plan provides that each fund shall pay a monthly fee equal to one-twelfth (1/12) of 20 basis points (.0020) of the value of the shares of the funds held in accounts at the institutions. These fees cover the usual transfer agency functions.

The funds paid the amounts below for transfer agency fees and expenses (net of expenses paid by the Adviser or fee waivers):

FUND	Fiscal Year Ended			
	June 30, 2006*	June 30, 2007*	June 30, 2008	December 31, 2008**
All American Fund	\$ 82,269	\$ 89,222	\$ 114,632	\$ 55,746
Gold and Precious Metals Fund	\$ 321,201	\$ 481,212	\$ 455,397	\$ 227,436
World Precious Minerals Fund	\$ 676,923	\$ 1,607,756	\$ 1,612,020	\$ 662,987
Global Resources Fund	\$ 1,453,247	\$ 2,268,892	\$ 2,687,220	\$ 1,322,017
China Region Fund	\$ 119,779	\$ 211,900	\$ 302,494	\$ 117,339
Tax Free Fund	\$ 0	\$ 0	\$ 0	\$ 0
Near-Term Tax Free Fund	\$ 0	\$ 0	\$ 0	\$ 0
U.S. Government Securities Savings Fund	\$ 353,547	\$ 398,563	\$ 525,735	\$ 239,126
U.S. Treasury Securities Cash Fund	\$ 177,725	\$ 234,371	\$ 414,961	\$ 176,258

\* Note that transfer agency fees and expenses through March 2007 were paid in accordance with a previous agreement with USSI.

\*\* For the six months ended December 31, 2008.

The following funds paid the transfer agency fees and expenses below:

FUND	October 31, 2006*	October 31, 2007*	October 31, 2008*	December 31, 2008**
Holmes Growth Fund	\$ 119,670	\$ 117,656	\$ 127,672	\$ 19,828
Global MegaTrends Fund	\$ 31,730	\$ 42,746	\$ 100,003	\$ 19,056
Eastern European Fund	\$ 1,874,094	\$ 1,986,175	\$ 2,057,712	\$ 165,304
Global Emerging Markets Fund	\$ 53,633	\$ 95,664	\$ 125,581	\$ 14,572

\* Note that transfer agency fees and expenses through March 2007 were paid in accordance with a previous agreement with USSI.

\*\* For the two months ended December 31, 2008.

## ACCOUNTING AND CUSTODY AGREEMENT

Brown Brothers Harriman & Co., an independent service provider, provides the funds with bookkeeping, accounting, and custody services and determines the daily net asset value for each of the funds. For the most recent fiscal years, the funds paid the following amounts for bookkeeping and accounting services:

FUND	June 30, 2006	June 30, 2007	June 30, 2008	December 31, 2008*
All American Fund	\$ 27,120	\$ 29,259	\$ 31,004	\$ 14,077
Gold and Precious Metals Fund	\$ 103,002	\$ 160,405	\$ 164,466	\$ 74,215
World Precious Minerals Fund	\$ 305,903	\$ 491,998	\$ 501,330	\$ 143,959
Global Resources Fund	\$ 480,213	\$ 566,034	\$ 696,173	\$ 232,518
China Region Fund	\$ 58,446	\$ 84,721	\$ 109,404	\$ 32,190
Tax Free Fund	\$ 36,993	\$ 34,015	\$ 37,189	\$ 19,673
Near-Term Tax Free Fund	\$ 40,072	\$ 36,535	\$ 36,276	\$ 18,026
U.S. Government Securities Savings Fund	\$ 75,039	\$ 75,823	\$ 78,666	\$ 34,670
U.S. Treasury Securities Cash Fund	\$ 23,881	\$ 25,807	\$ 25,828	\$ 12,930

\* For the six months ended December 31, 2008.

FUND	October 31, 2006	October 31, 2007	October 31, 2008	December 31, 2008*
Holmes Growth Fund	\$ 52,689	\$ 48,788	\$ 46,915	\$ 5,108
Global MegaTrends Fund	\$ 27,984	\$ 25,967	\$ 40,103	\$ 5,873
Eastern European Fund	\$ 623,119	\$ 635,588	\$ 563,828	\$ 40,056
Global Emerging Markets Fund	\$ 49,075	\$ 57,344	\$ 56,802	\$ 5,499

\* For the two months ended December 31, 2008.

## PORTFOLIO MANAGERS

### COMPENSATION FOR FRANK HOLMES, JOHN DERRICK, RALPH ALDIS, BRIAN HICKS, EVAN SMITH, ROMEO DATOR, AND TIM STEINLE

The Adviser seeks to maintain a compensation program that is competitively positioned to attract and retain high-caliber portfolio managers. Compensation for the portfolio managers consists of the following:

**BASE SALARY.** Each portfolio manager is paid a base salary that is competitive in light of the portfolio manager's experience and responsibilities.

**MONTHLY AND QUARTERLY BONUS.** The bonus is primarily driven by asset growth and performance of the fund. A bonus is awarded only if the fund performance is within certain percentiles of each fund's Lipper peer group or is awarded certain rankings by third-party ranking services. The following is the Lipper peer group for each of the funds: China Region Fund - Lipper China Region

Funds; All American Equity Fund-Lipper Large-Cap Core Funds; Gold and Precious Metals Fund-Lipper Gold Oriented Funds; World Precious Minerals Fund-Lipper Gold Oriented Funds; Global Resources Fund-Lipper Natural Resources Fund; Tax Free Fund-Lipper General Municipal Debt Funds; Near-Term Tax Free Fund-Lipper Short-Intermediate Municipal Debt Funds; Government Securities Savings Fund -Lipper U.S. Government Money Market Funds; Treasury Securities Cash Fund-Lipper U.S. Treasury Money Markets Funds. The portfolio managers serving on investment teams providing advisory services to accounts with performance-based fees are given bonuses if the account exceeds certain sector-specific benchmarks.

The portfolio managers are provided benefits packages including life insurance, health insurance and a company 401(k) plan comparable to that received by other company employees.

Frank Holmes receives the above compensation package and in addition receives an annual bonus based upon the Adviser's operational earnings, an annual bonus based upon the performance of the Adviser's own investment account, and a quarterly or annual performance fee bonus for the management of the three offshore accounts.

The Adviser manages three other accounts that pay a performance-based fee which could result in a higher fee than the management of the funds. The payment of a higher fee may create an incentive to give preferential treatment to the performance fee accounts. The Adviser has adopted trade allocation procedures designed to address this potential conflict.

**PORTFOLIO MANAGER: FRANK E. HOLMES**

**OTHER MANAGED ACCOUNTS AS OF 12/31/2008**

<b>TYPE OF ACCOUNT</b>	<b>NUMBER OF ACCOUNTS</b>	<b>TOTAL ASSETS</b>	<b>NUMBER OF PERFORMANCE FEE ACCOUNTS</b>	<b>TOTAL ASSETS OF PERFORMANCE FEE ACCOUNTS</b>
Registered investment companies	0	\$ 0	0	\$ 0
Pooled investment vehicles	2	\$15,369,701	2	\$15,369,701
Other accounts	1	\$ 4,676,580	1	\$ 4,676,580

Mr. Holmes also manages the Adviser's own investment account and earns a bonus based on the performance of the investments. The payment of a bonus may create an incentive to give preferential treatment to the Adviser's own account. The Adviser has adopted trade allocation procedures and a code of ethics designed to address this potential conflict.

**OWNERSHIP OF SECURITIES**

<b>NAME OF FUND</b>	<b>DOLLAR RANGE OF EQUITY SECURITIES IN THE FUND HELD AS OF 12/31/2008</b>
All American Equity Fund	\$10,001-\$50,000
Holmes Growth Fund	\$10,001-\$50,000
Global MegaTrends	\$10,001-\$50,000
Gold and Precious Metals Fund	\$10,001-\$50,000
World Precious Minerals Fund	\$10,001-\$50,000
Global Resources Fund	\$1-\$10,001
Eastern European Fund	None
Global Emerging Markets Fund	\$10,001-\$50,000
China Region Fund	\$10,001-\$50,000
Tax Free Fund	\$50,001-\$100,000
Near-Term Tax Free Fund	\$100,001-\$500,000

**PORTFOLIO MANAGER: JOHN DERRICK****OTHER MANAGED ACCOUNTS AS OF 12/31/2008**

<b>TYPE OF ACCOUNT</b>	<b>NUMBER OF ACCOUNTS</b>	<b>TOTAL ASSETS</b>	<b>NUMBER OF PERFORMANCE FEE ACCOUNTS</b>	<b>TOTAL ASSETS OF PERFORMANCE FEE ACCOUNTS</b>
Registered investment companies	0	\$0	0	\$0
Pooled investment vehicles	0	\$0	0	\$0
Other accounts	0	\$0	0	\$0

**OWNERSHIP OF SECURITIES**

<b>NAME OF FUND</b>	<b>DOLLAR RANGE OF EQUITY SECURITIES IN THE FUND HELD AS OF 12/31/08</b>
All American Equity Fund	\$50,001-\$100,000
Holmes Growth Fund	\$100,001-\$500,000
Global MegaTrends Fund	\$10,001-\$50,000
Eastern European Fund	None
Global Emerging Markets Fund	\$0-\$10,001
Tax Free Fund	\$10,001-\$50,000
Near-Term Tax Free Fund	\$10,001-\$50,000

**PORTFOLIO MANAGER: ROMEO DATOR****OTHER MANAGED ACCOUNTS AS OF 12/31/08**

<b>TYPE OF ACCOUNT</b>	<b>NUMBER OF ACCOUNTS</b>	<b>TOTAL ASSETS</b>	<b>NUMBER OF PERFORMANCE FEE ACCOUNTS</b>	<b>TOTAL ASSETS OF PERFORMANCE FEE ACCOUNTS</b>
Registered investment companies	0	\$0	0	\$0
Pooled investment vehicles	0	\$0	0	\$0
Other accounts	0	\$0	0	\$0

**OWNERSHIP OF SECURITIES**

<b>NAME OF FUND</b>	<b>DOLLAR RANGE OF EQUITY SECURITIES IN THE FUND HELD AS OF 12/31/2008</b>
All American Equity Fund	\$10,001-\$50,000
Global MegaTrends Fund	\$1-\$10,001
Holmes Growth Fund	\$10,001-\$50,000
Global Emerging Markets Fund	None
China Region Fund	\$10,001-\$50,000

**PORTFOLIO MANAGER: BRIAN HICKS****OTHER MANAGED ACCOUNTS AS OF 12/31/2008**

<b>TYPE OF ACCOUNT</b>	<b>NUMBER OF ACCOUNTS</b>	<b>TOTAL ASSETS</b>	<b>NUMBER OF PERFORMANCE FEE ACCOUNTS</b>	<b>TOTAL ASSETS OF PERFORMANCE FEE ACCOUNTS</b>
Registered investment companies	0	\$0	0	\$0
Pooled investment vehicles	2	\$15,369,701	2	\$15,369,701
Other accounts	0	\$0	1	\$0

**OWNERSHIP OF SECURITIES**

<b>NAME OF FUND</b>	<b>DOLLAR RANGE OF EQUITY SECURITIES IN THE FUND HELD AS OF 12/31/2008</b>
Global Resources Fund	\$100,001-\$500,000

**PORTFOLIO MANAGER: EVAN SMITH****OTHER MANAGED ACCOUNTS AS OF 12/31/2008**

<b>TYPE OF ACCOUNT</b>	<b>NUMBER OF ACCOUNTS</b>	<b>TOTAL ASSETS</b>	<b>NUMBER OF PERFORMANCE FEE ACCOUNTS</b>	<b>TOTAL ASSETS OF PERFORMANCE FEE ACCOUNTS</b>
Registered investment companies	0	\$0	0	\$0
Pooled investment vehicles	2	\$15,369,701	2	\$15,369,701
Other accounts	0	\$0	0	\$0

**OWNERSHIP OF SECURITIES**

<b>NAME OF FUND</b>	<b>DOLLAR RANGE OF EQUITY SECURITIES IN THE FUND HELD AS OF 12/31/2008</b>
Global Resources Fund	\$100,001-\$500,000

**PORTFOLIO MANAGER: RALPH ALDIS****OTHER MANAGED ACCOUNTS AS OF 12/31/2008**

<b>TYPE OF ACCOUNT</b>	<b>NUMBER OF ACCOUNTS</b>	<b>TOTAL ASSETS</b>	<b>NUMBER OF PERFORMANCE FEE ACCOUNTS</b>	<b>TOTAL ASSETS OF PERFORMANCE FEE ACCOUNTS</b>
Registered investment companies	0	\$0	0	\$0
Pooled investment vehicles	2	\$15,369,701	2	\$15,369,701
Other accounts	0	\$0	0	\$0

**OWNERSHIP OF SECURITIES**

<b>NAME OF FUND</b>	<b>DOLLAR RANGE OF EQUITY SECURITIES IN THE FUND HELD AS OF 12/31/2008</b>
Gold and Precious Metals Fund	\$50,001- \$100,00
World Precious Minerals Fund	\$50,001- \$100,00

**PORTFOLIO MANAGER: TIM STEINLE****OTHER MANAGED ACCOUNTS AS OF 12/31/2008**

<b>TYPE OF ACCOUNT</b>	<b>NUMBER OF ACCOUNTS</b>	<b>TOTAL ASSETS</b>	<b>NUMBER OF PERFORMANCE FEE ACCOUNTS</b>	<b>TOTAL ASSETS OF PERFORMANCE FEE ACCOUNTS</b>
Registered investment companies	0	\$0	0	\$0
Pooled investment vehicles	0	\$0	0	\$0
Other accounts	0	\$0	0	\$0

**OWNERSHIP OF SECURITIES**

<b>NAME OF FUND</b>	<b>DOLLAR RANGE OF EQUITY SECURITIES IN THE FUND HELD AS OF 12/31/2008</b>
Eastern European Fund	None
Global Emerging Markets Fund	None

**BROKERAGE ALLOCATION AND OTHER PRACTICES**

Decisions to buy and sell securities for the funds and placing the funds' securities transactions and negotiation of commission rates, where applicable are made by the Adviser and are subject to review by the board of trustees. The Adviser seeks best execution for a fund taking into account various factors, including the breadth of the market in the security, the price of the security, the financial

condition and execution capability of the broker or dealer (for a specified transaction and on a continuing basis), the reasonableness of the commission, if any, and the brokerage and research services provided to the Trust and/or other accounts over which the Adviser or an affiliate of the Adviser exercises investment discretion. The Adviser is permitted, in certain circumstances, to pay a higher commission than might otherwise be obtained in order to acquire brokerage and research services. The Adviser must determine in good faith, however, that such commission is reasonable in relation to the value of the brokerage and research services provided - viewed in terms of that particular transaction or in terms of all the accounts over which investment discretion is exercised. In such case, the board of trustees will review the commissions paid by each fund of the Trust to determine if the commissions paid over representative periods of time were reasonable in relation to the benefits obtained. The advisory fee of the Adviser will not be reduced due to its receipt of such brokerage and research services. To the extent that research services of value are provided by broker/dealers through or with whom the Trust places portfolio transactions the Adviser may be relieved of expenses which it might otherwise bear. Research services and products may be useful to the Adviser in providing investment advice to other clients they advise. Thus, there may be no correlation between the amount of brokerage commissions generated by a particular fund or client and the indirect benefits received by that fund or client.

The funds may, in some instances, purchase securities that are not listed on a national securities exchange or quoted on Nasdaq, but rather are traded in the over-the-counter market. When the transactions are executed in the over-the-counter market, the funds generally intend to deal with the primary market makers. However, the services of brokers will be utilized if it is anticipated that the best overall terms can thereby be obtained. Purchases of newly issued securities for the Tax Free Fund and Near-Term Tax Free Fund usually are placed with those dealers from which it appears that the best price or execution will be obtained. Those dealers may be acting as either agents or principals.

The brokerage fees paid by the following funds for the most recent fiscal years were as follows:

	Fiscal Year Ended			
	June 30, 2006	June 30, 2007	June 30, 2008	December 31, 2008*
All American Equity Fund	\$ 196,526	\$ 121,230	\$ 130,392	\$ 107,900
Gold and Precious Metals Fund	\$ 476,628	\$ 650,857	\$ 768,724	\$ 873,077
World Precious Minerals Fund	\$ 2,414,117	\$ 2,627,005	\$ 3,211,890	\$ 1,406,293
Global Resources Fund	\$ 5,363,523	\$ 5,451,211	\$ 6,397,597	\$ 3,622,973
China Region Fund	\$ 1,093,844	\$ 1,100,286	\$ 1,110,378	\$ 314,440

\* For the six months ended December 31, 2008.

The brokerage fees paid by the following funds for the most recent fiscal periods were as follows:

	Fiscal Year Ended			
	October 31, 2006	October 31, 2007	October 31, 2008	December 31, 2008*
Holmes Growth Fund	\$ 578,760	\$ 194,642	\$ 232,869	\$ 29,040
Global MegaTrends Fund	\$ 22,744	\$ 21,547	\$ 136,167	\$ 32,975
Eastern European Fund	\$ 3,365,731	\$ 2,912,357	\$ 3,137,847	\$ 159,426
Global Emerging Markets Fund	\$ 214,987	\$ 215,849	\$ 153,922	\$ 10,859

\* For the two months ended December 31, 2008.

During the fiscal year ended December 31, 2008, the following funds paid approximately \$120,065 in brokerage commissions to firms that provided research services to the Adviser. These trades involved approximately \$108,488,390 in principal value. The brokerage fees paid in this manner for each fund were as follows:

	COMMISSIONS	PRINCIPAL VALUE
All American Equity Fund	\$ 50	\$ 96,163
Holmes Growth Fund	\$ 0	\$ 0
Global MegaTrends Fund	\$ 0	\$ 0
Gold and Precious Metals Fund	\$ 4,304	\$ 2,311,988
World Precious Minerals Fund	\$ 12,499	\$ 6,572,202
Global Resources Fund	\$ 102,970	\$ 99,390,413
Eastern European Fund	\$ 0	\$ 0
Global Emerging Markets Fund	\$ 0	\$ 0
China Region Fund	\$ 241	\$ 117,625
Total	<u>\$ 120,065</u>	<u>\$ 108,488,390</u>

### TRADE AGGREGATION AND ALLOCATION PROCEDURES

The Adviser has adopted Trade Aggregation and Allocation Procedures (the “Procedures”) under which the Adviser may aggregate client (including the Funds) purchase or sale orders and may also aggregate orders for the Adviser’s own account to achieve more efficient execution, lower per share brokerage costs, and in the aggregate, better prices. The Adviser’s Procedures are designed to ensure that each of the Adviser’s clients is treated in a fair and equitable manner over time by not intentionally favoring one client over another. Among other things, the Procedures require the Adviser to: (i) aggregate client orders only when consistent with the Adviser’s duty of best execution and with the client’s investment objectives, account guidelines and other objective criteria, (ii) specify in advance the client accounts that will participate in the aggregated transaction, (iii) specify the relevant allocation method with respect to the aggregated order, and (iv) allocate on a pro rata basis the price and per share commission and transaction costs to each client participating in the aggregated transaction. The Adviser does not receive additional compensation or remuneration solely as a result of a trade aggregation or allocation. Trades will be aggregated when in the best interest of and overall fairness to each client. The Procedures also provide that the Adviser will monitor to ensure that no client is disadvantaged as a result of aggregated transactions over time.

Investments in private placements of limited size are not subject to the aggregation policy described above, and priority may be given to accounts managed by the investment personnel generating the investment idea pursuant to the Procedures. However, the Procedures are designed to monitor allocations of limited investment opportunities to ensure that such opportunities are allocated in a fair and equitable manner over time. In addition, the Funds’ ability to participate in certain private placements could be limited as a result of direct or indirect relationships of the Adviser or its principals with other clients or potential portfolio companies.

### PURCHASE, REDEMPTION, AND PRICING OF SHARES

The following information supplements the discussion of how to buy fund shares as discussed in the prospectus.

Shares of each fund are continuously offered by the Trust at their net asset value next determined after an order is accepted. The methods available for purchasing shares of the fund are described in the Prospectus. In addition, shares of the fund may be purchased using securities, so long as the securities delivered to the Trust meet the investment objectives and concentration policies of the fund and are otherwise acceptable to the Adviser, which reserves the right to reject all or any part of the securities offered in exchange for shares of the fund. On any such “in kind” purchase, the following conditions will apply:

1. The securities offered by the investor in exchange for shares of the fund must not be in any way restricted as to resale or otherwise be illiquid.
2. Securities of the same issuer must already exist in the fund’s portfolio.
3. The securities must have a value that is readily ascertainable (and not established only by evaluation procedures) as evidenced by a listing on the NYSE, or Nasdaq-AMEX.
4. Any securities so acquired by the fund shall not comprise over 5% of the fund’s net assets at the time of such exchange.

5. No over-the-counter securities will be accepted unless the principal over-the-counter market is in the United States.
6. The securities are acquired for investment and not for resale.

The Trust believes that this ability to purchase shares of the fund using securities provides a means by which holders of certain securities may obtain diversification and continuous professional management of their investments without the expense of selling those securities in the public market.

An investor who wishes to make an “in kind” purchase should furnish a list (either in writing or by telephone) to the Trust with a full and exact description of all of the securities he or she proposes to deliver. The Trust will advise him or her as to those securities it is prepared to accept and will provide the investor with the necessary forms to be completed and signed by the investor. The investor should then send the securities, in proper form for transfer, with the necessary forms to the Trust and certify that there are no legal or contractual restrictions on the free transfer and sale of the securities. The securities will be valued as of the close of business on the day of receipt by the Trust in the same manner as portfolio securities of the fund are valued. See the section entitled Net Asset Value in the prospectus. The number of shares of the fund, having a net asset value as of the close of business on the day of receipt equal to the value of the securities delivered by the investor, will be issued to the investor, less applicable stock transfer taxes, if any.

The exchange of securities by the investor pursuant to this offer is a taxable transaction and may result in a gain or loss for Federal income tax purposes. Each investor should consult his or her tax adviser to determine the tax consequences under Federal and state law of making such an “in kind” purchase.

#### **ADDITIONAL INFORMATION ON REDEMPTIONS**

**WIRE REDEMPTIONS - TREASURY SECURITIES CASH FUND AND GOVERNMENT SECURITIES SAVINGS FUND ONLY.** When shares of the Treasury Securities Cash Fund and Government Securities Savings Fund are redeemed by wire, proceeds will normally be wired on the next business day after receipt of the telephone instruction. To place a request for a wire redemption, the shareholder may instruct USSI by telephone (if this option was elected on the application accompanying the prospectus and bank wire instructions are established), or by mailing instructions with a signature guarantee to U.S. Global Investors Funds, P.O. Box 781234, San Antonio, Texas 78278-1234. A bank processing fee for each bank wire will be charged to the shareholder’s account. The shareholder may change the account that has been designated to receive amounts withdrawn under this procedure at any time by writing to USSI with signature(s) guaranteed as described in the prospectus. Further documentation will be required to change the designated account when shares are held by a corporation or other organization, fiduciary or institutional investor.

**CHECK REDEMPTIONS - TREASURY SECURITIES CASH FUND AND GOVERNMENT SECURITIES SAVINGS FUND ONLY.** Upon receipt of a completed application indicating election of the check-writing feature, shareholders will be provided with a free supply of temporary checks. A shareholder may order additional checks for a nominal charge.

The check writing withdrawal procedure enables a shareholder to receive dividends declared on the shares to be redeemed until the check is processed. If a check for the balance of the account is presented for payment, the dividends will close out and generate a dividend check and close the account. If there are not sufficient shares to cover a check, the check will be returned to the payee and marked “insufficient funds.” Checks written against shares which have been in the account less than 10 business days and were purchased by check or ACH will be returned as uncollected funds. A shareholder may avoid this 10-business-day requirement by purchasing by bank wire.

The Trust reserves the right to terminate generally, or alter generally, the check writing service or to impose a service charge upon 30 days’ prior notice to shareholders.

**REDEMPTION IN KIND.** The Declaration of Trust permits the right to redeem funds shares in cash or in kind. However, the Holmes Growth Fund, the Global MegaTrends Fund, the Gold and Precious Minerals Fund, the Eastern European Fund, the Global Emerging Markets Fund and the China Region Fund have elected to be governed by Rule 18f-1 under the Investment Company Act of 1940, pursuant to which the Trust is obligated to redeem shares of these funds solely in cash up to the lesser of \$250,000 or one percent of the net asset value of the Trust during any 90-day period for any one shareholder. Any shareholder of these funds receiving a redemption in kind would then have to pay brokerage fees in order to convert the investment into cash. All redemptions in kind will be made in marketable securities of the particular fund. Redemptions in kind are taxable for federal income tax purposes in the same manner as when sales proceeds are paid in cash.

**SUSPENSION OF REDEMPTION PRIVILEGES.** The Trust may not suspend redemption privileges, or postpone the date of payment for more than seven days after the redemption order is received, except during any period (1) when the NYSE is closed, other than customary weekend and holiday closings, or trading on the NYSE is restricted as determined by the Securities and Exchange Commission (SEC), (2) when an emergency exists, as defined by the SEC, which makes it not reasonably practicable for the Trust to dispose of securities owned by it or fairly to determine the value of its assets, or (3) as the SEC may otherwise permit.

## **FEDERAL INCOME TAXES**

### **TAXATION OF THE FUNDS - IN GENERAL**

Each fund has elected and intends to continue to qualify as a “regulated investment company” under Subchapter M of the Code. Accordingly, no fund will be liable for Federal income taxes on its taxable net investment income and capital gain net income that are distributed to shareholders, provided that a fund distributes each taxable year at least the sum of (i) 90% of the fund’s investment company taxable income (which includes, among other items, dividends, interest, the excess of any net short-term capital gain over net long-term capital loss and other taxable income, other than any net long-term capital gain, reduced by deductible expenses) determined without regard to the deduction for dividends paid and (ii) 90% of a fund’s net tax-exempt interest (the excess of its gross tax-exempt interest over certain disallowed deductions). Each fund intends to distribute substantially all of such income each year. A fund will be subject to Federal income tax at regular corporate rates on any taxable income or gains that it does not distribute to its shareholders.

To qualify as a regulated investment company, each fund must, among other things: (a) derive in each taxable year at least 90% of its gross income from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income derived with respect to its business of investing in such stock, securities or currencies and net income derived from interests in qualified publicly traded partnerships (“90% test”); and (b) satisfy certain diversification requirements at the close of each quarter of the fund’s taxable year. Furthermore, in order to be entitled to pay tax-exempt interest income dividends to shareholders, the Tax Free Fund and Near-Term Tax Free Fund must satisfy the requirement that, at the close of each quarter of its taxable year, at least 50% of the value of its total assets consists of state, local and other obligations the interest of which is exempt from Federal income tax under section 103(a) of the Code. The Tax Free and Near-Term Tax Free Funds intend to satisfy this requirement.

The Code imposes a non-deductible 4% excise tax on a regulated investment company that fails to distribute during each calendar year an amount equal to at least the sum of (1) at least 98% of its ordinary income for the calendar year, (2) at least 98% of its capital gain net income for the twelve-month period ending on October 31 of the calendar year and (3) any portion not taxable to the fund of the respective balance from the preceding calendar year. Because the excise tax is based upon undistributed taxable income, it will not apply to tax-exempt income received by the Tax Free and Near-Term Tax Free Funds. The funds intend to make such distributions as are necessary to avoid imposition of this excise tax.

A possibility exists that exchange control regulations imposed by foreign governments may restrict or limit the ability of a fund to distribute net investment income or the proceeds from the sale of its investments to its shareholders.

## TAXATION OF THE FUNDS' INVESTMENTS

Securities sold during a period may generate gains or losses based on the cost at which they were purchased. Net realized capital losses, for federal income tax purposes, may be carried forward to offset current or future capital gains until expiration. The funds' tax-basis capital gains and losses are determined only at the end of each fiscal year. The loss carryforwards and related expiration dates for each fund listed below, as of December 31, 2008, are as follows:

FUND	Expiration Date			
	2009	2010	2011	2012
All American Equity Fund	\$ -	\$ -	\$ -	\$ -
Holmes Growth Fund	\$ 1,040,063	\$ -	\$ -	\$ -
Global MegaTrends Fund	\$ -	\$ -	\$ -	\$ -
Gold and Precious Metals Fund	\$ -	\$ -	\$ -	\$ -
World Precious Minerals Fund	\$ -	\$ -	\$ -	\$ -
Global Resources Fund	\$ -	\$ -	\$ -	\$ -
Eastern European Fund	\$ -	\$ -	\$ -	\$ -
Global Emerging Markets Fund	\$ -	\$ -	\$ -	\$ -
China Region Fund	\$ -	\$ -	\$ -	\$ -
Tax Free Fund	\$ -	\$ -	\$ 90,567	\$ 421,236
Near-Term Tax Free Fund	\$ -	\$ -	\$ 42,218	\$ 33,686
U.S. Government Securities Savings Fund	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Securities Cash Fund	\$ -	\$ 285	\$ -	\$ -

FUND	Expiration Date				
	2013	2014	2015	2016	Total
All American Equity Fund	\$ -	\$ -	\$ -	\$ 3,188,188	\$ 3,188,188
Holmes Growth Fund	\$ -	\$ -	\$ 2,281,824	\$ 2,830,320	\$ 6,152,207
Global MegaTrends Fund	\$ -	\$ -	\$ 8,605,703	\$ 5,994,166	\$ 14,599,869
Gold and Precious Metals Fund	\$ -	\$ -	\$ -	\$ 18,951,332	\$ 18,951,332
World Precious Minerals Fund	\$ -	\$ -	\$ -	\$ 43,534,505	\$ 43,534,505
Global Resources Fund	\$ -	\$ -	\$ -	\$ 174,188,308	\$ 174,188,308
Eastern European Fund	\$ -	\$ -	\$ -	\$ 83,605,572	\$ 83,605,572
Global Emerging Markets Fund	\$ -	\$ -	\$ 4,262,898	\$ 2,695,929	\$ 7,228,827
China Region Fund	\$ -	\$ -	\$ -	\$ 24,694,256	\$ 24,694,256
Tax Free Fund	\$ -	\$ -	\$ -	\$ 10,697	\$ 522,500
Near-Term Tax Free Fund	\$ 2,760	\$ 202,719	\$ 2,488	\$ 112	\$ 287,983
U.S. Government Securities Savings Fund	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Securities Cash Fund	\$ -	\$ -	\$ -	\$ -	\$ 285

FUND	POST OCTOBER 31, 2008, CAPITAL LOSS DEFERRAL		POST OCTOBER 31, 2008, CURRENCY LOSS DEFERRAL	
	All American Equity Fund	\$ 1,988,625	\$ -	\$ -
Gold and Precious Metals Fund	\$ 21,777,721	\$ -	\$ 15,605	\$ -
World Precious Minerals Fund	\$ 65,086,087	\$ -	\$ 162,947	\$ -
Global Resources Fund	\$ 252,675,661	\$ -	\$ 70,839	\$ -
China Region Fund	\$ 6,793,201	\$ -	\$ -	\$ -

The amounts above, in accordance with federal income tax rules, are deemed to have occurred on January 1, 2009.

A fund's ability to make certain investments may be limited by provisions of the Code that require inclusion of certain unrealized gains or losses in the fund's income for purposes of the 90% test and the distribution requirements of the Code, and by provisions of the Code that characterize certain income or loss as ordinary income or loss rather than capital gain or loss. Such recognition, characterization, and timing rules generally apply to investments in certain forward currency contracts, foreign currencies and debt securities denominated in foreign currencies.

For Federal income tax purposes, debt securities purchased by a fund may be treated as having original issue discount. Original issue discount can generally be defined as the excess of the stated redemption price at maturity of a debt obligation over the issue price. Original issue discount is treated as interest earned by the fund for Federal income tax purposes, whether or not any income is actually received, and therefore, is subject to the distribution requirements of the Code. Because a fund will not receive a cash payment of interest, in order to satisfy the distribution requirements, a fund may have to sell other securities at a time when it might otherwise have continued to hold them. Original issue discount with respect to tax-exempt obligations generally will be excluded from a fund's taxable income, although such discount will be included in gross income for purposes of the 90% test described above. Original issue discount is accrued and added to the adjusted tax basis of the securities for purposes of determining gain or loss upon sale or at maturity. Generally, the amount of original issue discount is determined based on a constant yield to maturity, which takes into account the compounding of accrued interest. Under section 1286 of the Code, an investment in a stripped bond or stripped coupon will result in original issue discount. In addition, to the extent that a fund holds zero coupon or deferred interest bonds in its portfolio, or bonds paying interest in the form of additional debt obligations, the fund would recognize income currently under the original issue discount rules even though the fund received no cash payment of interest, and would need to raise cash to satisfy the obligations to distribute such income to shareholders from sales of portfolio securities.

Debt securities may be purchased by a fund at a discount that exceeds the original issue price plus previously accrued original issue discount remaining on the securities, if any, at the time a fund purchases the securities. This discount represents market discount for federal income tax purposes. To the extent that a fund purchases debt securities (including tax exempt bonds) at a market discount, the accounting accretion of such discount may generate taxable income for the fund and its shareholders. In the case of any debt security having a fixed maturity date of more than one year from the date of issue and having market discount, the gain realized on disposition will generally be treated as taxable interest income to the extent it does not exceed the accrued market discount on the security (unless the fund elects to include such accrued market discount in income in the tax year to which it is attributable). Generally, market discount is accrued on a daily basis.

A fund whose portfolio is subject to the market discount rules may be required to defer the deduction of part or all of any direct interest expense incurred to purchase or carry any debt security (other than a tax exempt obligation) having market discount, unless the fund makes the election to include market discount in income currently.

The funds may purchase debt securities at a premium, i.e., at a purchase price in excess of face amount. With respect to tax-exempt securities, the premium must be amortized to the maturity date but no deduction is allowed for the premium amortization. Instead, the amortized bond premium will reduce the fund's adjusted tax basis in the securities. For taxable securities, the premium may be amortized if the fund so elects. The amortized premium on taxable securities is allowed as a deduction, and reduces the fund's basis in the securities, and generally, must be amortized under a constant yield method.

If a fund owns shares in a foreign corporation that is a "passive foreign investment company" for U.S. Federal income tax purposes and that fund does not elect alternative tax treatment, that fund may be subject to U.S. Federal income tax on part of any "excess distribution it receives from the foreign corporation or any gain it derives from the disposition of such shares, even if the fund distributes such income as a taxable dividend to its U.S. shareholders. The fund may also be subject to additional tax similar to an interest charge with respect to deferred taxes arising from such distributions or gains. Any tax paid by the fund because of its ownership of shares in a "passive foreign investment company" will not lead to any deduction or credit to the fund or any shareholder. Rather than being taxed on passive foreign investment company income as discussed above, a fund may be eligible to elect alternative tax treatment. If the fund elects to treat the foreign corporation as a "qualified electing fund" under the Code, the fund may be required to include its share of the passive foreign investment company's ordinary income and net capital gains in its income each year, even if this income is not distributed to the fund. Any such income would be subject to the distribution requirements described above even if the fund did not receive any income to distribute.

In addition, another election may be available that would involve marking-to-market the fund's shares in a passive foreign investment company at the end of each taxable year (and on certain other dates prescribed in the Code), with the result that unrealized gains are treated as though they were realized. If this election is available and is made, Federal income tax at the fund level under the passive foreign investment company rules would generally be eliminated, but the fund could, in limited circumstances, incur nondeductible

interest charges. A fund's intention to qualify annually as a regulated investment company may limit its options with respect to shares in a passive foreign investment company.

A fund's transactions, if any, in forward contracts, options, futures contracts and hedged investments may be subject to special provisions of the Code that, among other things, may affect the character of gain and loss realized by the fund (i.e., may affect whether gain or loss is ordinary or capital), accelerate recognition of income to the fund, defer the fund's losses, and affect whether capital gain and loss is characterized as long-term or short-term. These rules could therefore affect the character, amount and timing of distributions to shareholders. These provisions also may require a fund to mark-to-market certain types of positions (i.e., treat them as if they were closed out), which may cause the fund to recognize income without receiving cash with which to make distributions in amounts necessary to satisfy the distribution requirements for avoiding income and excise taxes.

If an option which a fund has written expires on its stipulated expiration date, the fund recognizes a short-term capital gain. If a fund enters into a closing purchase transaction with respect to an option which the fund has written, the fund realizes a short-term capital gain (or loss if the cost of the closing transaction exceeds the premium received when the option was sold) without regard to any unrealized gain or loss on the underlying security. If a call option which a fund has written is exercised, the fund realizes a capital gain or loss from the sale of the underlying security and the proceeds from such sale are increased by the premium originally received.

If an option which a fund has purchased expires on the stipulated expiration date, the fund realizes a short-term or long-term capital loss for Federal income tax purposes in the amount of the cost of the option. If a fund exercises a put option, it realizes a capital gain or loss (long-term or short-term, depending on the holding period of the underlying security) from the sale of the underlying security and the proceeds from such sale are decreased by the premium originally paid.

The amount of any realized gain or loss on closing out options on certain stock indices will result in a capital gain or loss for Federal income tax purposes. Such options held by a fund at the end of each fiscal year on a broad-based stock index generally are treated under the Code as "Section 1256 contracts" and will be required to be "marked-to-market" for Federal income tax purposes. Sixty percent of any net gain or loss recognized on such deemed sales or on any actual sales will be treated as long-term capital gain or loss, and the remainder will be treated as short-term capital gain or loss ("60/40 gain or loss"). Certain other options, futures contracts and options on futures contracts utilized by a fund may also be Section 1256 contracts. Any gains or losses on these Section 1256 contracts held by a fund at the end of each taxable year (and on October 31 of each year for purposes of the 4% excise tax) are "marked-to-market" with the result that unrealized gains or losses are treated as though they were realized and the resulting gain or loss is treated as a 60/40 gain or loss.

If a fund invests in certain pay-in-kind securities, zero coupon securities, deferred interest securities or, in general, any other securities with original issue discount (or with market discount if the fund elects to include market discount in income currently), the fund must accrue income on such investments for each taxable year, which generally will be prior to the receipt of the corresponding cash payments. However, a fund must distribute to shareholders, at least annually, all or substantially all of its investment company taxable income (determined without regard to the deduction for dividends paid), including such accrued income, to avoid federal income and excise taxes. Therefore, a fund may have to dispose of its portfolio securities under disadvantageous circumstances to generate cash, or may have to leverage itself by borrowing the cash, to satisfy these distribution requirements.

A fund may acquire market discount bonds. A market discount bond is a security acquired in the secondary market at a price below its redemption value (or its adjusted issue price if it is also an original issue discount bond). If a fund invests in a market discount bond, it will be required to treat any gain recognized on the disposition of such market discount bond as ordinary income (instead of capital gain) to the extent of the accrued market discount, unless the fund elects to include the market discount in income as it accrues.

A fund's investment in lower-rated or unrated debt securities may present issues for the fund if the issuers of these securities default on their obligations because the federal income tax consequences to a holder of such securities are not certain

Under the Internal Revenue Code, gains or losses attributable to fluctuations in exchange rates which occur between the time a fund accrues income or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the fund actually collects such receivable or pays such liabilities generally are treated as ordinary income or loss. Similarly, on disposition of securities denominated in a foreign currency, gains or losses attributable to fluctuations in the value of the foreign currency between the date of acquisition of the security or contract and the date of disposition also may be treated as ordinary gain or loss. These gains and losses, referred to as "Section 988 gains or losses," may increase or decrease the amount of a fund's investment company taxable income to be distributed to its shareholders as ordinary income, rather than increasing or decreasing the amount of the fund's net

capital gain. Certain gains or losses with respect to forward foreign currency contracts, over-the-counter options on foreign currencies and certain options traded on foreign exchanges may also be treated as Section 988 gains or losses.

The funds may invest in REITs that hold residual interests in real estate mortgage investment conduits (REMICs). Under a notice issued by the Internal Revenue Service, a portion of a fund's income from a REIT that is attributable to the REIT's residual interest in a REMIC (referred to in the Internal Revenue Code as an "excess inclusion") will be subject to federal income tax in all events. The notice provides that excess inclusion income of a regulated investment company, such as a fund, will be allocated to shareholders of the regulated investment company in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related REMIC residual interest directly. In general, excess inclusion income allocated to shareholders (a) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (b) will constitute unrelated business taxable income to entities (including a qualified pension plan, an individual retirement account, a 401(k) plan, a Keogh plan or other tax-exempt entity) subject to tax on unrelated business income, thereby potentially requiring such an entity that is allocated excess inclusion income, and otherwise might not be required to file a federal income tax return, to file a tax return and pay tax on such income, and (c) in the case of a foreign shareholder, will not qualify for any reduction in U.S. federal withholding tax. In addition, if at any time during any taxable year a "disqualified organization" (as defined in the Internal Revenue Code) is a record holder of a share in a regulated investment company, then the regulated investment company will be subject to a tax equal to that portion of its excess inclusion income for the taxable year that is allocable

## **TAXATION OF THE SHAREHOLDER**

Shareholders will be subject to Federal income taxes on distributions made by a fund (other than distributions of exempt-interest dividends paid by the Tax Free Fund or Near-Term Tax Free Fund), whether received in cash or additional shares of the fund. Distributions of net investment income (including any net short-term capital gain in excess of any net long-term capital loss), other than "qualified dividend income," if any, will be taxable to shareholders as ordinary income. For taxable years beginning prior to January 1, 2011, distributions of "qualified dividend income," as such term is defined in section 1(h)(11) of the Code (generally dividends received from U.S. domestic corporations and qualified foreign corporations), by a fund to its noncorporate shareholders generally will be taxed at the Federal income tax rates applicable to net capital gain, provided certain holding period and other requirements described below are satisfied. Distributions of net capital gain (the excess of net long-term capital gains over net short-term capital losses), if any, will be taxable to noncorporate shareholders at a maximum Federal income tax rate of 15%, without regard to how long a shareholder has held shares of the fund. Unless extended by future legislation, the 15% Federal income tax rate on net capital gain will expire for taxable years beginning after 2010 and will be replaced by a maximum Federal income tax rate on net capital gains of 20%. Corporate shareholders are taxed on net capital gain at the same Federal income tax rates applicable to ordinary income. Dividends paid by a fund may qualify in part for the 70% dividends received deduction available to corporate shareholders, provided that certain holding period and other requirements under the Code are satisfied. Generally, however, dividends received on stocks of foreign issuers that are held by a fund are not eligible for the dividends received deduction when distributed to the fund's corporate shareholders. Since none of the net investment income of the Tax Free Fund, Near-Term Tax Free Fund, U.S. Treasury Securities Cash Fund or U.S. Government Securities Savings Fund is expected to arise from dividends on common or preferred stock, none of the funds' distributions are expected to be treated as qualified dividend income or qualify for the 70% corporate dividends received deduction.

To be eligible for treatment as qualified dividend income, shareholders generally must hold their shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. In order for dividends received by a fund's shareholders to be treated as qualified dividend income, the fund must also meet holding period and other requirements with respect to such dividend paying stocks it owns. A dividend will not be treated as qualified dividend income at the fund level if the dividend is received with respect to any share of stock held for 60 days or fewer during the 121-day period beginning on the date which is 60 days before the date on which such share becomes ex-dividend with respect to such dividend (or, in the case of certain preferred stock, 90 days or fewer during the 181-day period beginning 90 days before such date). In addition to the above holding period requirements, a dividend will not be treated as qualified dividend income (at either the fund or shareholder level), (1) to the extent that the recipient is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property, (2) if the recipient elects to have the dividend income treated as investment income for purposes of the limitation on deductibility of investment interest, or (3) if the dividend is received from a foreign corporation that is (a) not eligible for the benefits of a comprehensive income tax treaty with the United States (with the exception of stock of a foreign corporation that is readily tradeable on an established securities market in the United States) or (b) treated as a passive foreign investment company.

As discussed above, the Tax Free Fund and Near-Term Tax Free Fund intend to satisfy the requirements in order to pay exempt-interest dividends. If the Tax Free Fund and Near-Term Tax Free Fund satisfy the requirements, to the extent that the Tax Free Fund's

and Near-Term Tax Free Fund's dividends distributed to shareholders are derived from interest income exempt from Federal income tax under section 103(a) of the Code and are designated as "exempt-interest dividends" by the funds, they will be excludable from a shareholder's gross income for Federal income tax purposes. Shareholders who are recipients of social security benefits should be aware that exempt-interest dividends received from the funds are includable in their "modified adjusted gross income" for purposes of determining the amount of such social security benefits, if any, that are required to be included in their gross income.

All distributions of investment income during the year will have the same percentage designated as tax-exempt. This method is called the "average annual method." Since the Tax Free Fund and Near-Term Tax Free Fund invest primarily in tax-exempt securities, the percentage is expected to be substantially the same as the amount actually earned during any particular distribution period.

Taxable distributions generally are included in a shareholder's gross income for the taxable year in which they are received. However, dividends declared in October, November or December and made payable to shareholders of record in such a month will be deemed to have been received on December 31, if a fund pays the dividends during the following January.

Distributions by a fund, other than the Treasury Securities Cash Fund and the Government Securities Savings Fund, will result in a reduction in the net asset value of fund shares. Should a distribution reduce the net asset value below a shareholder's cost basis, such distribution nevertheless may be taxable to the shareholder as ordinary income or long-term capital gain, even though, from an investment standpoint, it may constitute a partial return of capital. In particular, investors should be careful to consider the tax implications of buying shares of such funds just prior to a distribution. The price of such shares purchased at that time includes the amount of any forthcoming distribution. Those investors purchasing the fund shares just before a distribution may receive a return of investment upon distribution that will nevertheless be taxable to them.

All distributions of investment income during the year will have the same percentage designated as tax exempt. This method is called the "average annual method." Since the Tax Free Fund and the Near-Term Tax Free Fund invest primarily in tax-exempt securities, the percentage is expected to be substantially the same as the amount actually earned during any particular distribution period.

A shareholder of a fund should be aware that a redemption of shares (including any exchange into another U.S. Global Investors fund) is a taxable event and, accordingly, a capital gain or loss may be recognized. The gain or loss will generally be long term if the shares were held more than one year and short term if the shares were held less than one year. It is unlikely that shareholder will recognize a gain or loss on redemptions or exchanges of shares of the Treasury Securities Cash Fund or Government Securities Savings Fund since each seeks to maintain a stable share price. If a shareholder of the Tax Free Fund or the Near-Term Tax Free Fund receives an exempt-interest dividend with respect to any share and such share has been held for six months or less, any loss on the redemption or exchange will be disallowed to the extent of such exempt-interest dividend. Similarly, if a shareholder of a fund receives a distribution taxable as long-term capital gain with respect to shares of the fund and redeems or exchanges shares before he has held them for more than six months, any loss on the redemption or exchange (not otherwise disallowed as attributable to an exempt-interest dividend) will be treated as long-term capital loss to the extent of the long-term capital gain recognized.

The Tax Free Fund and the Near-Term Tax Free Fund may invest in private activity bonds. Interest on private activity bonds is generally subject to the Federal alternative minimum tax (AMT), although the interest continues to be excludable from gross income for other purposes. AMT is a supplemental tax designed to ensure that taxpayers pay at least a minimum amount of tax on their income, even if they make substantial use of certain tax deductions and exclusions (referred to as "tax preference items"). Interest from private activity bonds is one of the tax preference items that is added into income from other sources for purposes of determining whether a taxpayer is subject to the AMT and the amount of any tax to be paid. Prospective investors should consult their own tax advisors with respect to the possible application of the AMT to their tax situation.

Opinions relating to the validity of tax-exempt securities and the exemption of interest thereon from Federal income tax are rendered by recognized bond counsel to the issuers. Neither the Adviser's nor the Trust's counsel makes any review of proceedings relating to the issuance of tax-exempt securities or the basis of such opinions.

Interest on indebtedness incurred by shareholders to purchase or carry shares of the Tax Free Fund or Near-Term Tax Free Fund will generally not be deductible for Federal income tax purposes. Under rules issued by the Internal Revenue Service to determine when borrowed funds are used for the purpose of purchasing or carrying particular assets, the purchase of shares may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of shares.

Each fund is required in certain circumstances to withhold Federal income tax ("backup withholding") at a current rate of 28% on reportable payments, including dividends, capital gain distributions and the proceeds of sales or other dispositions of the fund's shares,

paid to certain shareholders who do not furnish the fund with their correct social security number or other taxpayer identification number and certain other certifications, or who are otherwise subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld from payments made to a shareholder may be refunded or credited against such shareholder's U.S. Federal income tax liability, if any, provided that the required information is timely furnished to the Internal Revenue Service.

## **CURRENCY FLUCTUATIONS - "SECTION 988" GAINS OR LOSSES**

Under the Code, gains or losses attributable to fluctuations in exchange rates that occur between the time a fund accrues interest or other receivables, or accrues expenses or other liabilities denominated in a foreign currency and the time a fund actually collects such receivables or pays such liabilities are generally treated as ordinary income or ordinary loss. Similarly, gains or losses from the disposition of foreign currencies or from the disposition of debt securities denominated in a foreign currency attributable to fluctuations in the value of the foreign currency between the date of acquisition of the currency or security and the date of disposition also are treated as ordinary gain or loss. These gains or losses, referred to under the Code as "section 988" gains or losses, increase or decrease the amount of a fund's net investment income (which includes, among other things, dividends, interest and net short-term capital gains in excess of net long-term capital losses, net of expenses) available to be distributed to its shareholders as ordinary income, rather than increasing or decreasing the amount of the fund's net capital gain. If section 988 losses exceed such other net investment income during a taxable year, any distributions made by the fund could be recharacterized as a return of capital to shareholders, rather than as an ordinary dividend, reducing each shareholder's basis in his fund shares. To the extent that such distributions exceed such shareholder's basis, they will be treated as a gain from the sale of shares. Certain gains or losses with respect to forward foreign currency contracts, over-the-counter options on foreign currencies and certain options traded on foreign exchanges will also be treated as section 988 gains or losses.

Forward currency contracts and certain options entered into by the fund may create "straddles" for U.S. Federal income tax purposes and this may affect the character of gains or losses realized by the fund on forward currency contracts or on the underlying securities and cause losses to be deferred. Transactions in forward currency contracts may also result in the loss of the holding period of underlying securities for purposes of the 30% of gross income test. The fund may also be required to "mark-to-market" certain positions in its portfolio (i.e., treat them as if they were sold at year end). This could cause the fund to recognize income without having the cash to meet the distribution requirements.

## **FOREIGN TAXES**

Income received by a fund from sources within any countries outside the United States in which the issuers of securities purchased by the fund are located may be subject to withholding and other taxes imposed by such countries.

Under the Code, if more than 50% of the value of a fund's total assets at the close of its taxable year consists of stocks or securities of foreign corporations, the fund will be eligible for, and intends to file, an election with the Internal Revenue Service to "pass-through" to the fund's shareholders the amount of such foreign income and withholding taxes paid by the fund. Pursuant to this election a shareholder will be required to: (1) include in gross income (in addition to taxable dividends actually received) his pro rata share of such foreign taxes paid by the fund; (2) treat his pro rata share of such foreign taxes as having been paid by him; and (3) either deduct his pro rata share of such foreign taxes in computing his taxable income or use it as a foreign tax credit against his U.S. Federal income taxes. No deduction for such foreign taxes may be claimed by a shareholder who does not itemize deductions. Each shareholder will be notified within 60 days after the close of the fund's taxable year whether the foreign taxes paid by the fund will "pass-through" for that year and, if so, such notification will include the shareholder's proportionate share of foreign source income and foreign taxes paid.

The amount of foreign taxes for which a shareholder may claim a credit in any year will be subject to an overall limitation that is applied separately to "passive income," which includes, among other types of income, dividends, and interest.

The foregoing is only a general description of the foreign tax credit under current law. Because applicability of the credit depends on the particular circumstances of each shareholder, shareholders are advised to consult their own tax advisors.

The foregoing discussion relates only to generally applicable federal income tax provisions in effect as of the date of the prospectus and statement of additional information. Shareholders should consult their tax advisors about the status of distributions from the fund in their own states and localities.

## **CUSTODIAN, FUND ACCOUNTANT, AND ADMINISTRATOR**

Brown Brothers Harriman & Co., 40 Water Street, Boston, Massachusetts 02109, serves as custodian, fund accountant, and administrator for all funds of the Trust described in this Statement of Additional Information. With respect to the funds that own foreign securities, Brown Brothers Harriman & Co. may hold securities of the funds outside the United States pursuant to sub-custody arrangements separately approved by the Trust.

## **DISTRIBUTOR**

U.S. Global Brokerage, Inc., 7900 Callaghan Road, San Antonio, Texas 78229, is the exclusive agent for distribution of shares of the funds. The distributor is obligated to sell the shares of the funds on a best-efforts basis only against purchase orders for the shares. Shares of the funds are offered on a continuous basis.

## **FINANCIAL STATEMENTS**

The financial statements for the fiscal year ended December 31, 2008, are hereby incorporated by reference from the funds' 2008 Annual Report to Shareholders dated December 31, 2008. A copy of the financial statement will be provided, free of charge, upon request to U.S. Global Investors, Inc., P.O. Box 781234, San Antonio, Texas 78278-1234, 1-800-873-8637 or 210-308-1234.

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND LEGAL COUNSEL**

KPMG LLP, 99 High Street, Boston, Massachusetts 02110, serves as the independent registered public accounting firm for the Trust. The independent registered public accounting firm audits and reports on the funds' annual financial statements, reviews certain regulatory reports and the funds' federal income tax returns, and may perform other professional accounting, auditing, tax, and advisory services to the extent approved by the Audit Committee of the Trust. Vedder Price P.C., 222 North LaSalle Street, Chicago, Illinois, 60601, serves as legal counsel to the Trust and to the independent trustees of the Trust.