The LBMA/LPPM Precious Metals Conference 2008
Gold and Commodities Trends — Sustainable or Speculative?

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Cycles – Where are we on the…

Kuznets Cycle – 20-year Emerging Market Cycle That Drives Commodity Demand

Presidential Election Cycle – 4-Year Cycle

Seasonal Cycle – Commodity and Stock Market Patterns
Balanced Thought Process

Opinion

Action

Analysis

Analysis

Fundamental

Statistical
Complex Adaptive Thinking

Knowable & Understandable

Visible, yet Incomprehensible

Unknowable & Unforeseeable
Government Policy Model — Precursor for Change

Monetary
- Interest Rates ↓↑
- $M^s$ ↓↑

Fiscal
- Tax ↓↑
- Spend ↓↑
Matrix: What’s Driving Gold?

We have a unique situation where all the critical drivers for gold are pointing in the same direction.

<table>
<thead>
<tr>
<th>Cause</th>
<th>Effect</th>
<th>Possible Ramifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fear of Slowing GDP</td>
<td>Negative Real Interest Rates</td>
<td>Gold Attractive When Rates Are Negative</td>
</tr>
<tr>
<td>Oil Exporters</td>
<td>U.S. Dollar Trade Surplus</td>
<td>Increase Gold as a % of Foreign Reserves</td>
</tr>
<tr>
<td>China</td>
<td>Trade Surplus</td>
<td>Foreign Reserve Gold Exposure</td>
</tr>
<tr>
<td>Low Gold Price in ’90s</td>
<td>Cuts in Exploration</td>
<td>Falling Production</td>
</tr>
<tr>
<td>Low Interest Rates</td>
<td>Hedging Curtailed</td>
<td>Less Supply</td>
</tr>
<tr>
<td>Subprime-Derivatives</td>
<td>Interest Rates Cut by Fed</td>
<td>Weaker U.S. Dollar</td>
</tr>
</tbody>
</table>
Matrix: What’s Driving Energy?

We have a unique situation where all the critical drivers for oil are pointing in the same direction.

<table>
<thead>
<tr>
<th>Cause</th>
<th>Effect</th>
<th>Possible Ramifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging Economies</td>
<td>Rising Oil Consumption</td>
<td>Competition for Oil Resources</td>
</tr>
<tr>
<td>Low Oil Prices in 90’s</td>
<td>Cuts in Exploration</td>
<td>Falling Production/Reserves</td>
</tr>
<tr>
<td>OPEC</td>
<td>Gov’ts Depend on Oil Income</td>
<td>Cartel Restricts Supply</td>
</tr>
<tr>
<td>Geopolitical</td>
<td>Disruption/Threat of Disruption of Production</td>
<td>Lower Global Spare Capacity</td>
</tr>
<tr>
<td>Green Movement</td>
<td>Higher Barriers to Entry - More Costly</td>
<td>Limited Drilling Access and New Refineries</td>
</tr>
<tr>
<td>Peak Oil Theory</td>
<td>Declining Oil Production</td>
<td>Less Supply</td>
</tr>
</tbody>
</table>
6 Billion People-Tipping Point
Oil Consumption per capita:
1 to 25
1 to 16
1 to 15
1 to 2
0.9

Oil Consumption and Industrialization, 1900 to present

Lower U.S. labor costs versus Europe and the U.K. drive American industrialization, enrichment and energy consumption.

Lower Japanese labor costs do the same to the U.S.

Lower Korean labor costs do the same to Japan.

Oil per capita rises rapidly during early industrialization, then levels to rapid real income growth. Rising world trade actually stimulates the industrialization phase.

Source: Dr. Marc Faber

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Super Shift – Electricity

Intensity of electricity consumption

<table>
<thead>
<tr>
<th>Country</th>
<th>Start</th>
<th>Finish</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1980</td>
<td>2003</td>
</tr>
<tr>
<td>Europe</td>
<td>1980</td>
<td>2001</td>
</tr>
<tr>
<td>India</td>
<td>1980</td>
<td>2001</td>
</tr>
<tr>
<td>Japan</td>
<td>1960</td>
<td>2001</td>
</tr>
<tr>
<td>South Korea</td>
<td>1971</td>
<td>2001</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1980</td>
<td>2001</td>
</tr>
<tr>
<td>Thailand</td>
<td>1980</td>
<td>2001</td>
</tr>
<tr>
<td>UK</td>
<td>1960</td>
<td>2001</td>
</tr>
<tr>
<td>US</td>
<td>1949</td>
<td>2001</td>
</tr>
</tbody>
</table>

Source: BHPB

Power consumption has been growing faster than the rate of GDP growth.
Chindia Rapid Urbanization
Forty percent of the world’s population

China – 500 million expected to move to cities or towns over the next three decades

India – 540 million are expected to live in urban areas by 2025
Catch-Up Potential

- Poor countries grow faster than rich ones
- EM GDP per capita is US$5,000 vs. $40,000 in developed markets

As of Sep 2006. Source: IMF, Merrill Lynch
E7 vs G7 vs Oil

Industrial Production YoY % Chg in E7 and G7 Countries vs. Oil

Oil data as of Aug 31, 2008; IP data as of July 31, 2008 (Data normalized per availability)

E7: Brazil, China, India, Indonesia, Mexico, Pakistan, Russia

G7: Canada, France, Germany, Italy, Japan, UK, USA

Source: Bloomberg

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Picking Bottoms is Challenging

Global GDP growth – more of a U than a V

Source: UBS estimates
Commodity Prices are Cyclical

Commodity prices are cyclical and move in unison

Commodities by category, data 1795 to March-2008, 10-yr. M.A.

Corrections are Healthy

**DJ AIG Commodity Index (from '92) and possible future dynamic**

- Demand push-back as growth becomes too expensive
- Price support as growth becomes more affordable in a supply constrained environment

*Source: Bloomberg, UBS estimates*
Three Price Levels When Valuing Derivatives

1. Wholesale price
2. Retail price
3. Fairytale price
Derivatives—Weapons of Mass Destruction (WMDs)—Proliferate

5 Times Bigger In Five Years

Source: U.S. Global Research

www.usfunds.com
Derivatives—Weapons of Mass Destruction (WMDs)—Proliferate

Source: Bank for International Settlements
Convergence and Unexpected Consequences

Derivatives
Notional Valuations — Fearful Unwinding

Sarbanes-Oxley
Securities Regulations

FASB 157
Accounting Rule
Government will continue to print money, like the recent multi-billion dollar bailout of Fannie Mae and Freddie Mac, to support the economy.
Projected Copper Growth in 2001: Expectations vs Reality

The top 50 probable and possible mine projects in 2001 total 7.1 Mt

Only 1.3 Mt of project mine production is operational/under construction in 2007 compared with the 2001 forecast of 7 Mt

Source: Xstrata, Merrill Lynch & Co., Inc.
Gold Historical Patterns

Gold: Handy & Harman Base Price
Historical Patterns (1971-2007)

Source: Moore Research Center, Inc.
Holidays Drive Gold Demand
Compare Dollar and Gold Counter Cyclical Patterns

Gold vs. Dollar 60-day % Chg Oscillator (August 17, 1998 thru August 15, 2008)

Source: Bloomberg
Opportunity for Asia to Increase Exposure to Gold

<table>
<thead>
<tr>
<th>Region</th>
<th>US$ Currency (Billions)</th>
<th>Bullion (Tonnes)</th>
<th>% of Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Americas</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>206.07</td>
<td>33.6</td>
<td>0.5%</td>
</tr>
<tr>
<td>Mexico</td>
<td>81.21</td>
<td>2.8</td>
<td>0.1%</td>
</tr>
<tr>
<td>Argentina</td>
<td>45.37</td>
<td>54.7</td>
<td>3.1%</td>
</tr>
<tr>
<td><strong>U.S.</strong></td>
<td>40.79</td>
<td>8,133.5</td>
<td>78.2%</td>
</tr>
<tr>
<td>Canada</td>
<td>40.76</td>
<td>3.4</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>582.02</td>
<td>457.9</td>
<td>2.4%</td>
</tr>
<tr>
<td>Eurozone</td>
<td>220.67</td>
<td>10,411.6</td>
<td>60.9%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>45.41</td>
<td>1,100.7</td>
<td>39.8%</td>
</tr>
<tr>
<td><strong>Africa/Middle East</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>133.24</td>
<td>173.6</td>
<td>3.7%</td>
</tr>
<tr>
<td>Libyo</td>
<td>87.49</td>
<td>143.8</td>
<td>4.5%</td>
</tr>
<tr>
<td>UAE</td>
<td>81.36</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Nigeria</td>
<td>60.81</td>
<td>21.4</td>
<td>1.0%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>33.25</td>
<td>143.0</td>
<td>11.1%</td>
</tr>
<tr>
<td>South Africa</td>
<td>30.94</td>
<td>124.3</td>
<td>10.3%</td>
</tr>
<tr>
<td>Kuwait</td>
<td>13.22</td>
<td>79.0</td>
<td>11.9%</td>
</tr>
<tr>
<td>Quatar</td>
<td>12.58</td>
<td>12.4</td>
<td>2.2%</td>
</tr>
<tr>
<td><strong>Asia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>1,808.83</td>
<td>600.0</td>
<td>1.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>971.25</td>
<td>765.2</td>
<td>2.1%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>282.09</td>
<td>423.3</td>
<td>4.0%</td>
</tr>
<tr>
<td>India</td>
<td>279.63</td>
<td>357.7</td>
<td>3.3%</td>
</tr>
<tr>
<td>South Korea</td>
<td>243.20</td>
<td>14.3</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td>6,945.44</td>
<td>29,813.1</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Bloomberg, WGC, BMO Capital Markets
Dollar Historical Seasonal Cyclical Patterns

Source: Moore Research Center, Inc.
Yen Historical Seasonal Cyclical Patterns

Source: Moore Research Center, Inc.
Production Per Share Growth is Key for Resource Stocks

**Production Per Share Growth vs. Stock Return**

The source of this graph is Lehman Brothers. The securities identified in the graph were selected for inclusion by Lehman Brothers and may or may not be held by portfolios managed by U.S. Global Investors, Inc., whose holdings may change daily.

**DAPPS: Debt Adjusted Production Per Share**

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EMEs hold 70% of global foreign-exchange reserves
Less prone to contagious crises than before
Unlike the U.S. and other developed nations, EMs are net creditors, with improving debt ratings and foreign currency reserves
40% of EM debt now rated investment grade vs 3% a decade ago
Record Valuation Lows for Mining Stocks

Source: Datastream, Morgan Stanley Research
Long Term Bullish Drivers for Commodities in Infrastructure Spending

Source: Morgan Stanley Research, World Bank, Global Insight e=Morgan Stanley Research estimates
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Disclosure

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