GOLD'S *love* TRADE

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There are two main drivers of gold demand across the world: The Fear Trade and the Love Trade.

The Love Trade, which this report focuses on, is the more important of the two. It's what has driven our obsession of gold for thousands of years. Early peoples mined the precious metal not because they could turn it into tools or weapons. It's far too soft for that. Instead, they dug it out of the earth because they were dazzled by its rich yellow hue and because it could be easily worked into fine jewelry, ornaments and other artifacts that enriched and added beauty to their lives.

That same obsession and love for gold is carried on today in countries where it's customary to give gold to friends and relatives during birthdays and weddings and to celebrate holidays. The two most populated countries, China and India, also happen to be the two biggest consumers of gold—together responsible for half of annual consumption—largely because they observe religious and cultural holidays during which gold-buying and gifting is the norm for the vast majority of people. Even low-income families go beyond their means to fulfill this important cultural obligation.

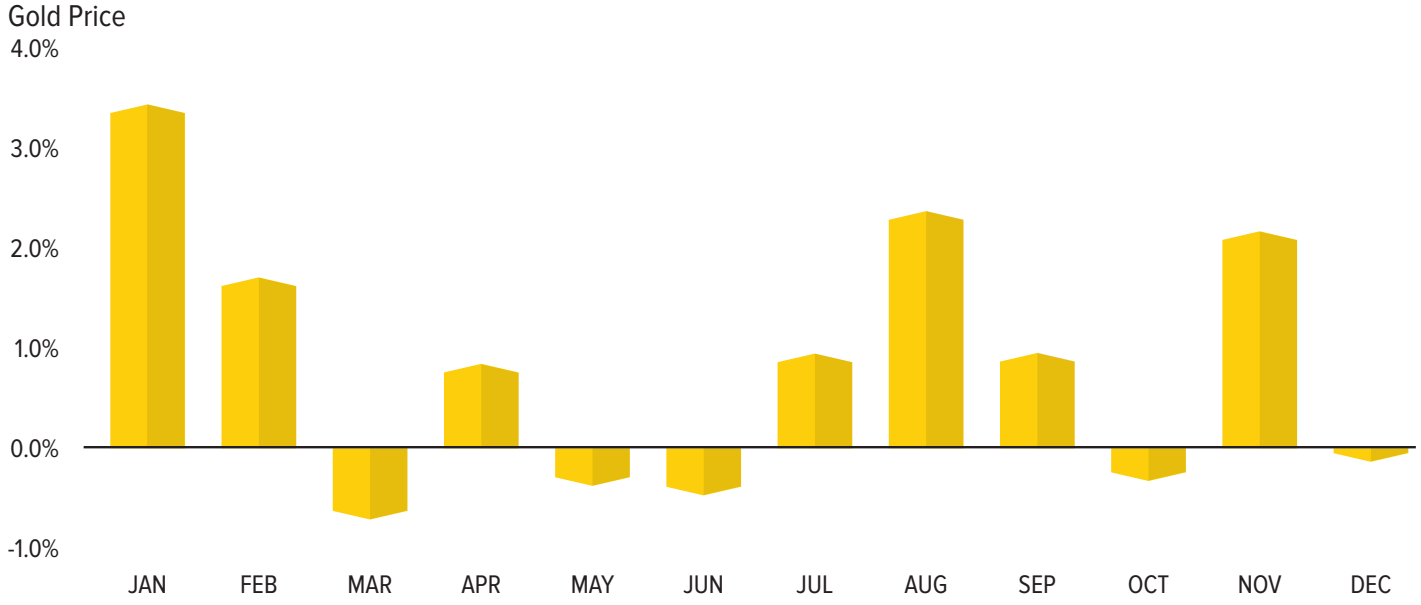
China's Lunar New Year, celebrated in late January or early February, is one such holiday. Later in the year, in October or November, Indians celebrate Diwali, the Festival of Lights. Following that is the Indian wedding season, when it is considered auspicious to give gold to the bride. "No gold, no wedding" is an actual expression in India.

I should also throw in Christmas in December and Ramadan, the ninth and most venerated month of the Islamic calendar, which ordinarily lasts from late May to late June.

Altogether, these cultural events, observed every year by billions of people worldwide, account for so much gold demand that we can reliably see their effects on the metal's price action at certain times throughout the calendar.

Take a look at the chart below. You should see two clear instances when gold has historically appreciated: at the beginning of the year, as we approach China's Lunar New Year, and in the months leading up to Diwali and the wedding season. During these two periods, Chinese and Indian retailers restock their inventories of gold coins and jewelry ahead of the holidays. That's the Love Trade in action.

Gold's Average Monthly Gains and Losses, 2003 – 2017



Past performance does not guarantee future results. **Source:** LBMA, U.S. Global Investors

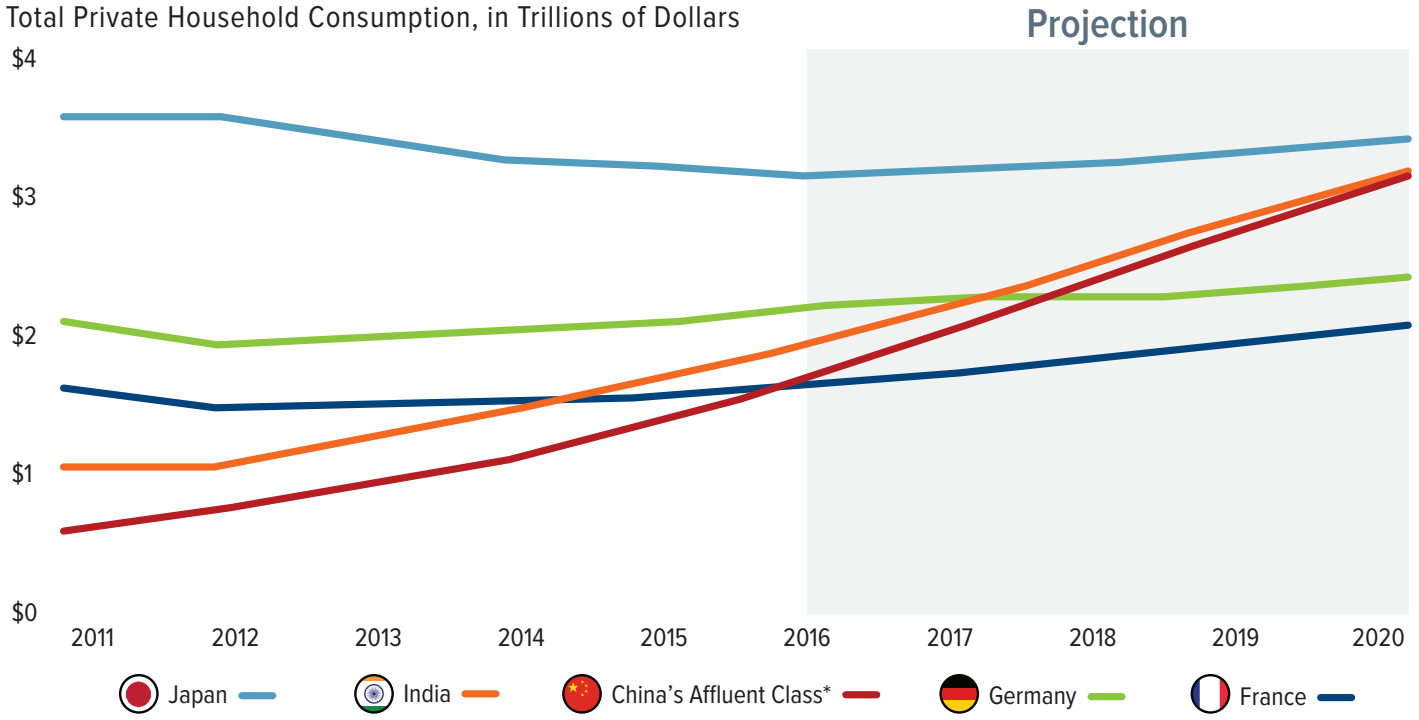
But there's more to the Love Trade than holidays and festivals. The yellow metal's dual role as the basis for fine jewelry and as financial security is perhaps nowhere more apparent than in India, where wives have sole authority over the disposition of fine gold jewelry and other gifts they receive throughout their marriage. This jewelry is theirs, and theirs alone, to use in the event of a divorce, the death of a husband or some other setback when having a portion of your wealth in gold might come in handy.

Gold Expected to Benefit from Rising Incomes in Emerging Markets

Of course, the more that disposable incomes rise in emerging countries such as China and India, the more rapidly stronger gold demand can be expected to grow. Members of China's middle class already outnumber America's and show no signs of slowing down. In October 2015, a Credit Suisse study estimated the size of China's middle class at 109 million adults, America's at 92 million adults. This spread will only continue to widen. According to consultancy group McKinsey & Company, the size of China's working-class consumers between the ages of 15 and 59 will grow 20 percent between 2015 and 2030, adding 100 million new people. On a global scale, 12 cents of every dollar will be spent by this group in 2030, McKinsey estimates. And according to Boston Consulting Group (BCG) data, consumer spending in both China and India will soon overtake spending in Germany and France, and is on a trajectory to match Japan's level of consumption.

India and China's Affluent Class Expected to Consume as Much as Some Major Countries by 2020

Total Private Household Consumption, in Trillions of Dollars



*120 million Chinese, controlling $590 billion. **Source:** Boston Consulting Group, Economist Intelligence, U.S. Global Investors

By 2020, the number of "affluent" households in China—those with annual incomes of at least $20,000—will grow to 280 million, equal to 30 percent of the country's urban population. That's quite a leap up from today's 120 million households labeled as "affluent." The long-term investment case for gold looks just as compelling following recent bullish reports from PricewaterhouseCoopers (PwC) and Morgan Stanley. China and India are the world's top two consumers of gold, as I said, and both countries are expected to make huge economic gains in the next few decades.

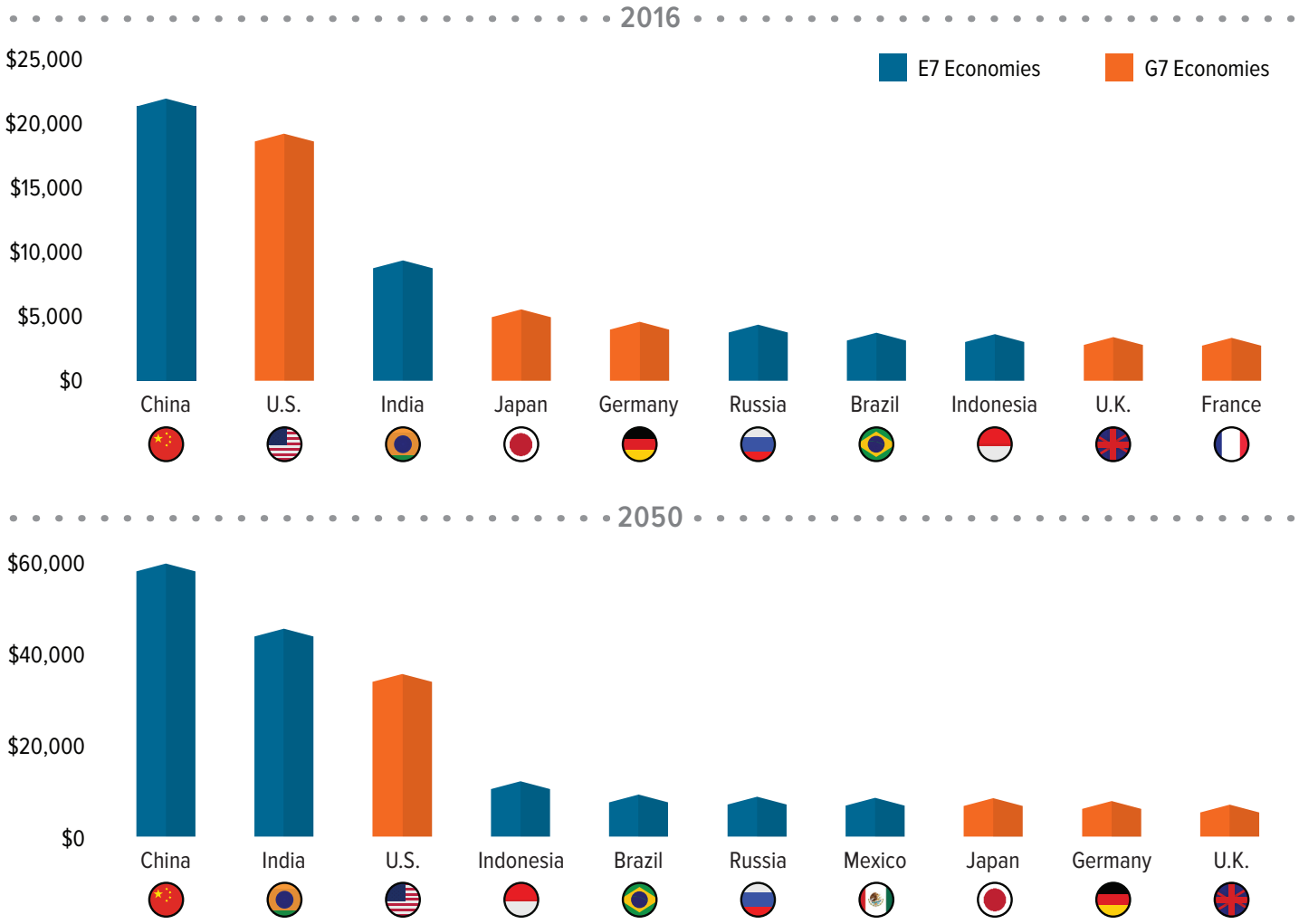
India's middle class is growing just as rapidly—perhaps more so—and is expected to become the world's largest group of middle-income consumers by as early as 2030. According to the Brookings Institution, the country could lift over 1 billion new people into the middle class between 2011 and 2039.

The long-term investment case for gold looks just as compelling following recent bullish reports from PwC and Morgan Stanley. Again, China and India are the world's top two consumers of gold, and both countries are expected to make huge economic gains in the next few decades.

According to PwC's models, China and India should become the world's number one and number two largest economies by 2050 based on purchasing power parity (PPP). China is already the largest economy by that measure, but PwC sees the Asian giant surpassing the U.S. economy on an absolute basis by as early as 2030.

Top 10 Economies Expected to Be Dominated by 7 Largest Emerging Markets in 2050

Gross Domestic Product (GDP) Based on Purchasing Power Parity (PPP), in Billions of 2016 Dollars



Source: PwC, U.S. Global Investors

As for India, it "currently comprises 7 percent of world GDP at PPP, which we project to rise steadily to over 15 percent by 2050," PwC writes. "This is a remarkable increase of 8 percentage points, gaining the most ground of any of the countries we modeled."

I think it's also worth highlighting Indonesia, which is expected to replace Japan as the fourth-largest economy by midcentury. E7 economies, in fact, could end up dominating the top 10, with Mexico moving up to number seven and France dropping off.

Then there's Morgan Stanley's 118-page report, "Why we are bullish on China." The investment bank sees a number of dramatic changes over the coming years, the most significant being China's transition from a middle-income nation to a prosperous, high-income nation sometime between 2024 and 2027. This would make China one of only three countries with populations over 20 million that have managed to accomplish this feat in the past 30 years, the other two being South Korea and Poland.

This trajectory is dependent on a number of expectations, including, most importantly, Morgan Stanley's confidence that China will manage to avoid a debt-related financial crisis, as some investors might now believe is forthcoming. The bank's view is that the Chinese government will successfully provide "adequate policy buffers and deft management of the policy cycle" to ensure the growth of per capita incomes.

Other key transitions will additionally need to take place for the country to reach high-income status by 2027, including implementing meaningful reform of state-owned enterprises (SOEs). Although China is currently transitioning from a manufacturing economy to one that's focused on consumption and services, the country will also need to emphasize high value-added manufacturing.

In any case, this all bodes well for the Love Trade. "Economic growth is good for gold," writes World Gold Council (WGC) CEO Aram Shishmanian in *Gold 2048: The Next 30 Years of Gold*. "As the middle class expands rapidly in China, India and elsewhere, demand for gold will undoubtedly increase."

A Few Words About the Fear Trade

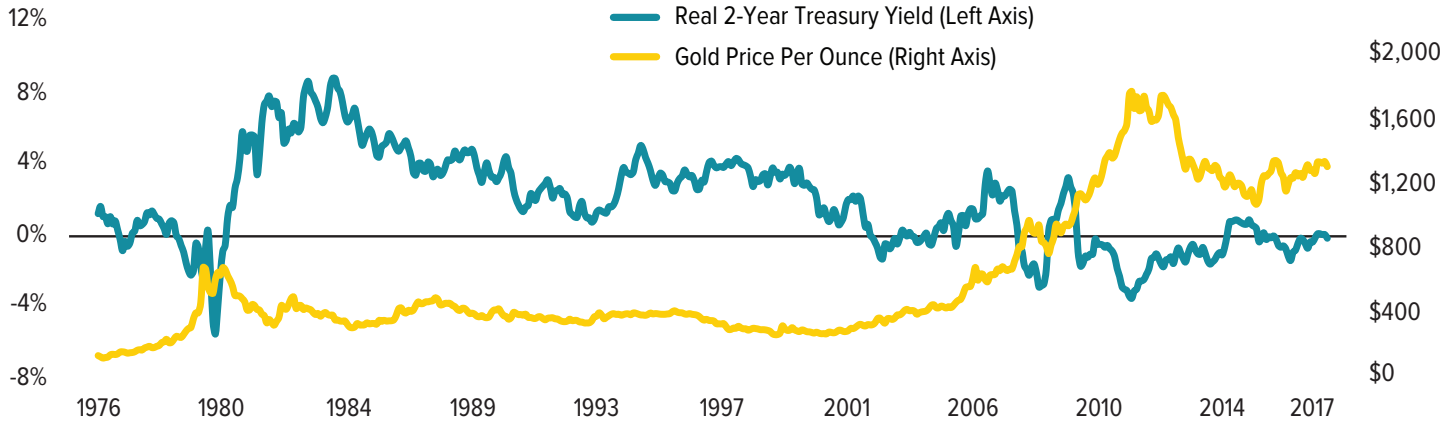
As I mentioned at the beginning, gold demand has two drivers. Even though I'll be exploring the Love Trade in this report, I would be remiss if I didn't say a few words about the Fear Trade.

Whereas the Love Trade mostly occurs in China, India, Turkey and other emerging countries, the Fear Trade can more often be found in the U.S., Germany, Japan and other highly industrialized nations. In simplest terms, the Fear Trade is what you often hear about in the media and from doom-and-gloomers. It's triggered when people feel as if they need to buy gold as a hedge against poor government or central bank policies that might result in currency devaluation, inflation, deficit spending and negative real interest rates. The real interest rate, I should point out, is different from the nominal federal funds rate in that it takes inflation into consideration. And when inflation runs so high that rates turn negative, gold tends to rise in that country's currency.

To illustrate, let's look at the 40-year relationship between gold and the real, or inflation-adjusted, 2-year Treasury yield, which is influenced by both interest rates and consumer prices. What I did was subtract inflation, as measured by the consumer price index (CPI), from the 2-year Treasury yield and charted this amount against the price of gold per ounce. You should immediately be able to pick out the inverse relationship between the two.

Gold and the Real 2-Year Treasury Yield

June 1976 – May 2018



Treasuries are backed by the full faith and credit of the U.S. Government. **Source:** Federal Reserve, IBA, U.S. Global Investors

Gold spiked whenever the bond yield fell below 0 percent, meaning investors were losing money on the 2-year T-note. They were essentially paying the U.S. government to hold its debt instead of the other way around. This improved the investment case for the yellow metal. When gold climbed above $1,900 for the first time ever in intraday trading in September 2011, government debt was "returning" negative 3.6 percent.

This is one of the many reasons why we closely monitor the monthly CPI figures. Significant increases in inflation have historically been constructive for the price of gold.

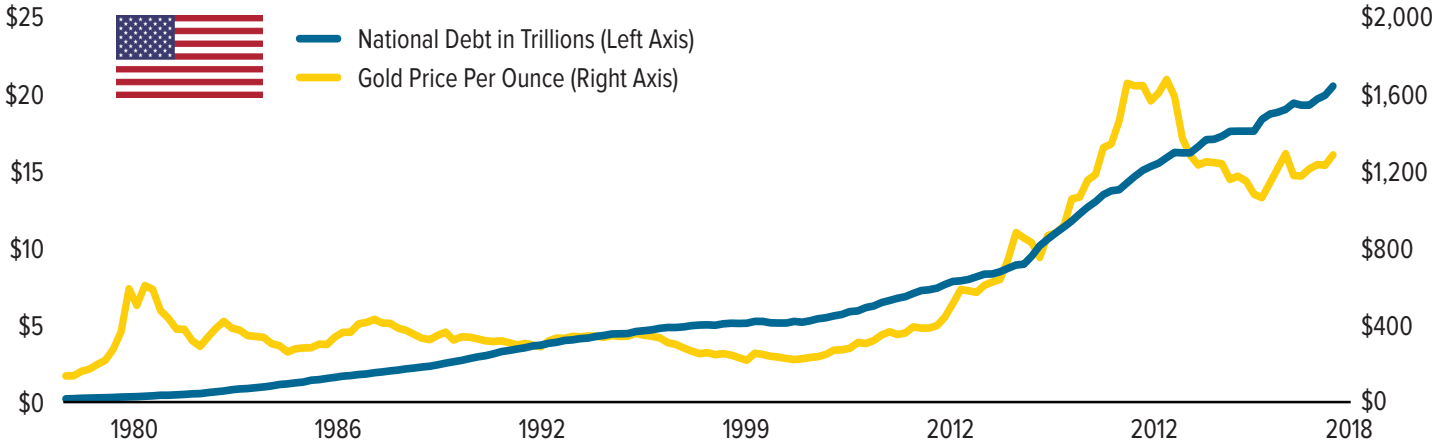
Why would an investor deliberately choose to lose money? That's precisely what happens to Treasury investors when inflation rises, as you can see in the table below:

	2-Year	5-Year	10-Year
Treasury Yield	2.50%	2.8%	2.9%
Consumer Price Index	2.9%	2.9%	2.9%
Real Yield	-0.4%	-0.1%	0.0%

As of June 29, 2018. Source: Federal Reserve

Gold also correlates strongly to U.S. national debt, which passed $20 trillion in September 2017. According to the National Inflation Association (NIA)—which believes a period of hyperinflation in the U.S. could be imminent—there's a 91.2 percent correlation between the price of gold and the national debt, suggesting the yellow metal could continue to surge over the long term as we add to the debt every year.

91.2% Correlation Between Gold Price and National Debt



Source: Treasury Department, IBA, U.S. Global Investors

At this point, it appears unlikely the U.S. will ever again be able to pay down its debt, let alone balance its budget. In its 2016 end-of-the-year report to Congress, the U.S. Government Accountability Office (GAO), the nation's watchdog, warned that "absent policy changes, the federal government's fiscal path is unsustainable and that the debt-to-GDP ratio would surpass its historical high of 106 percent within 15 to 25 years," between 2030 and 2040. Yes, you read that right: "unsustainable." The federal deficit increased to $587 billion in 2016, after six years of declining deficits. Spending increases were driven by entitlement programs such as Medicare and Medicaid, which surged 4.9 percent and 5.3 percent, respectively, during the year. Even though President Donald Trump seems outwardly interested in lowering costs and bringing some fiscal restraint to the government, there's still the risk of increased deficit spending on his watch. All the more reason for some investors to have a portion of their wealth in gold and gold stocks.

But enough doom and gloom. Let's talk about the Love Trade.

India's Love Affair with Gold

Today, more than 1.2 billion people share a country that for half a millennium was subject to colonialism ranging from the Portuguese in the 15th century to the British as recently as the mid-20th century. This has given rise to modern-day India, one of the world's most heterogeneous states. In 1961, a nationwide census reported the existence of more than 1,600 spoken languages in India belonging to two major linguistic families: Indo-European in the north, Dravidian in the south. Many of these languages have since gone extinct—up to a third, in fact, according to the People's Linguistic Survey of India. About 80 percent of the population identify as Hindu, according to the 2011 census, but other major faiths include Islam, Christianity, Sikhism, Jainism and Buddhism.

With that said, one of the few shared traditions in all corners of India is the love of gold. Since before recorded human history, the people of the Indian subcontinent have had an insatiable appetite for the yellow metal, treasuring it not only for its flawless natural beauty and religious significance but also as a superb store of value. Because India has undergone countless political upheavals and natural calamities over the centuries, gold has been the most trusted way to preserve household wealth. In rural areas, gold has often been one of only two dependable stores of value available, the other being land.

This tradition carries on today, with India's demand for gold jewelry in 2017 reaching an impressive 623.7 metric tons, according to the GFMS Gold Survey 2018. That's more than any other country, including China. Gold, in fact, is India's largest expense on its import bill after oil.

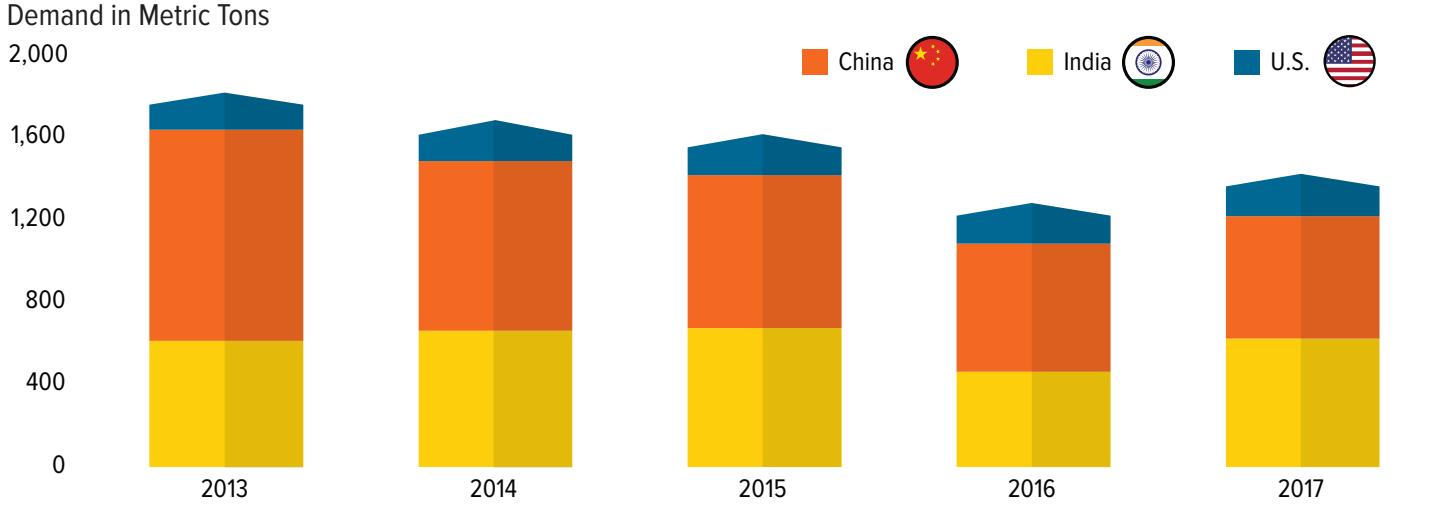
A 2013 survey conducted by the Federation of Indian Chambers of Commerce & Industry (FICCI) found that more than three quarters of Indians view the precious metal as a "safe investment." The study also found that gold is a regular line item in most Indian households' annual budgets, responsible for a little over 8 percent of household income—comparable to what they spend every year on medical expenses and clothing. Similarly, in a WGC survey, 79 percent of Indians agreed with the statement that "gold will never lose its value over the long term." Seventy-six percent agreed with the statement that "gold makes me feel secure for the long term."

Who Owns It All?

It should come as little surprise, then, that Indian households have the largest private gold holdings in the world. Standing at between 23,000 and 24,000 tons, the amount surpasses the combined official gold reserves of the United States, Germany, Italy, France, China and Russia. In June 2018, the value of all this gold could have been as high as $970 billion, which exceeded the $950 billion market capitalization of Apple.

India and China Dominate Global Gold Jewelry Market

Demand in Metric Tons



Note: 1 tonne = 1,000 kilograms **Source:** Metals Focus, U.S. Global Investors

The largest owners of gold in India are women, as it is auspicious to give them gifts of gold jewelry before their weddings. Because India lacks a formal social security system, it's vital for women in particular to have some form of wealth preservation in the event of divorce or widowhood. This is what's known as *stridhan*—a portion of a married couple's wealth that is controlled exclusively by the wife and to which she alone is entitled, even after separation from her husband. India's Supreme Court reaffirmed this tradition in November 2015, ruling that "neither the husband nor any other family members can have any right over the stridhan and [wives] remain the custodians."

It's said that gold tends not to leave India once it enters. Indeed, the country is flush with the yellow metal. The Reserve Bank of India reports having 560.3 tons, the 10th largest official holding in the world if we don't count the International Monetary Fund (IMF). That amounts to $22.6 billion.

Coincidentally, that's just as much as one Hindu temple reportedly owns in gold, coins, jewels and other treasures. According to the *Christian Science Monitor*, the loot discovered in Padmanabhaswamy temple, located in the far-southern city of Thiruvananthapuram, Kerala, "includes about 1,000 kilograms (2,205 pounds) of gold coins—some dating back 400 years—ropes of gold, sacks of diamonds, and a gold statue of the Hindu god Vishnu studded with precious gems, as well as an 18-foot solid gold ornament weighing 35 kilograms (77 pounds) and rare silver and brass platters." Elsewhere, another temple has "enough gold to rival the riches stashed at the Vatican," writes the *National Post*.


Golden Temple of Sripuram

Several temples in India are true marvels to behold, exquisitely designed and gilt in pure, fine gold. The Golden Temple of Sripuram, located in the southern state of Tamil Nadu, required the skills of literally hundreds of goldsmiths and decorators to install 1,500 kilograms (53,000 ounces) of the yellow metal, the most ever for such a project. Completed in 2007, the temple is something out of a dream, shimmering radiantly in the sunlight and illuminated brightly at night.

Monsoons, Diwali and Weddings

All around the world, the price of gold is driven largely by the Love Trade in India. Demand fluctuates year-to-year depending on several factors, the three most significant being the amount of crop revenue that's generated as a result of the summer monsoon season; Diwali, also known as the Festival of Lights, which normally occurs in late October or early November; and the number of Indian weddings held in the fourth quarter.

The monsoon season is crucial to India's important agriculture sector. During an average year, the Indian subcontinent can receive close to 80 percent of its total annual precipitation. When the monsoon fails to deliver, as we saw in 2014 and 2015, farmers suffer financially, food can become scarce—and gold purchasing drops.

About a third of Indian gold demand comes from rural farmers, who have traditionally converted a percentage of all crop revenue into the precious metal to be held as a type of insurance and sold in times of dire need. A GFMS/Thomson Reuters study conducted in 2015 found that, between 1985 and 2014, there was a strong positive correlation between Indian crop revenue and spending on gold in 21 out of 29 years.

Following the crop season, we have Diwali and the Indian wedding season to look forward to.

Diwali is arguably the most sacred holiday in Hinduism, celebrated by millions of people all over the globe as a victory of light over darkness—hence the prevalence of lighted candles, clay lamps, fireworks and sky lanterns. Much like Christmas, Diwali serves as a major shopping season. Families splurge on big-ticket items such as cars, appliances, clothes—and gold jewelry. As we've already established, the price of gold has historically ramped up in July, August and September as Indian merchants and jewelers restock inventories in preparation for the fall festival.

And then comes the fourth-quarter wedding season. It's almost impossible to exaggerate just how massive this industry is, with one India-based research firm expecting it to hit 1.6 trillion rupees ($24 billion) by 2020.

I'm often asked why Indians reserve a specific time of the year to get married. The answer has a lot to do with certain behavioral restrictions during the four-month period known as Chaturmas, which takes place from mid-July to mid-November. The period coincides with the monsoon season, when disease and sickness were historically rampant. Chaturmas is a time of penance, atonement, fasting and abstinence. It might be helpful to think of the period as the Hindu version of Lent. As such, several behaviors are discouraged, including eating food cooked by others, drinking water from a leather vessel, sleeping in a bed—and getting married. What's more, this period is also when Lord Vishnu, the protector and preserver, is believed to be asleep. Any ceremonies, weddings included, would disturb him from his slumber prematurely.

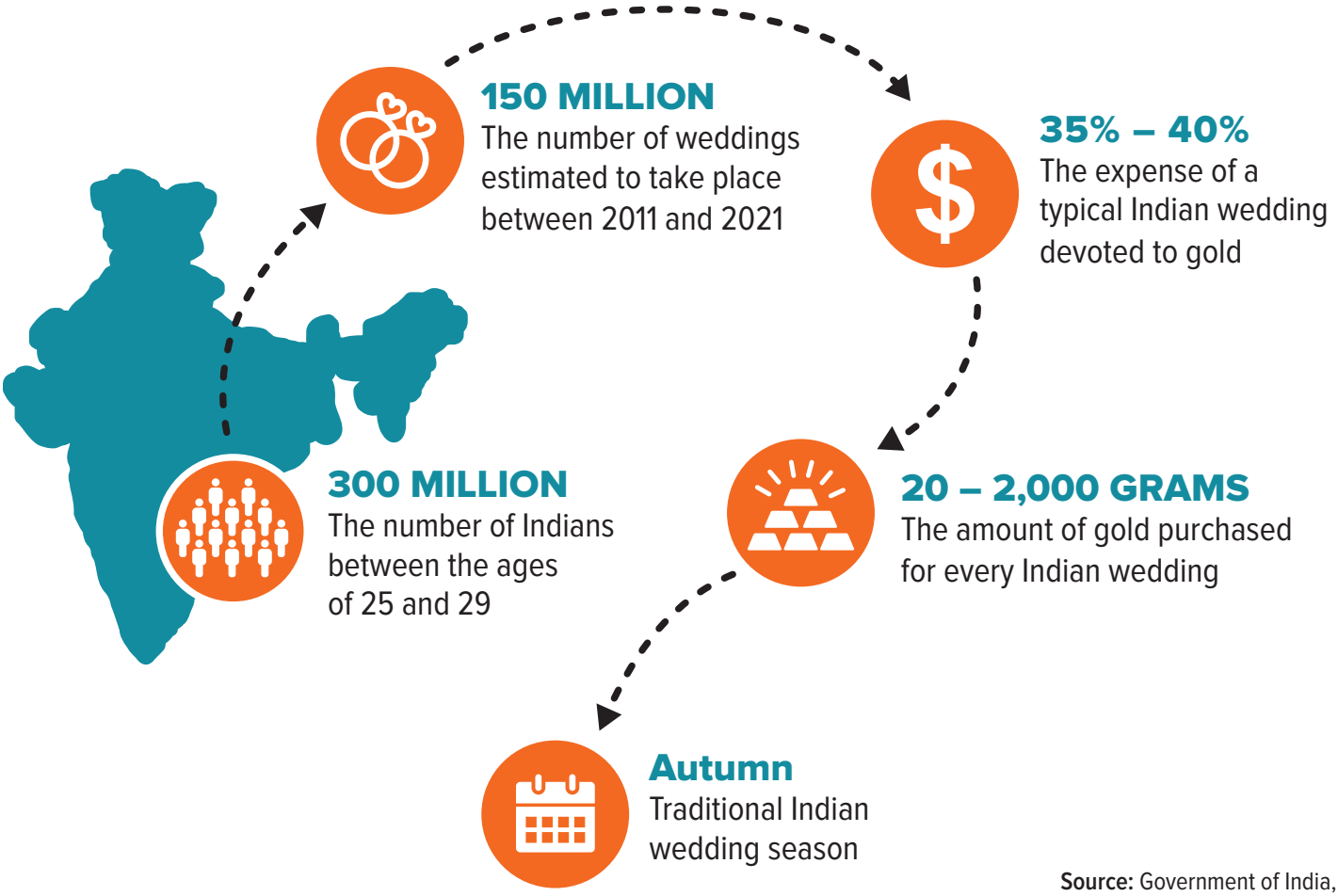
Once Vishnu awakes in November, it becomes auspicious again to get married, which is why we see such a huge surge in weddings—and gold jewelry-buying—late in the year.

So how many weddings are we talking about, and how much gold? Let's look at the numbers. According to the Indian government, there are 300 million Indians between the ages of 25 and 29 from now until 2021. During this period, a projected 150 million weddings will take place. And for each wedding, roughly 35 percent to 40 percent of total expenses will be devoted to gold in the form of bullion, coins and jewelry.

Put another way, it's estimated that the amount of gold jewelry purchased for a typical Indian wedding ranges from 20 to 2,000 grams—equivalent to a little over 70.5 ounces, or $88,400 at today's prices. The wealthier the family, of course, the more gold they can afford to buy.

The Love Trade is expressed in a number of ways, including love of self and love of family. That's certainly the case in India. Friends and family members bestow gifts of gold jewelry on a young woman prior to her wedding because they want her to be not only decorated brilliantly in beautiful gold jewelry but also financially secure. In India, there's really no other asset that's quite up to the task aside from gold.

INDIAN WEDDINGS AND GOLD



Source: Government of India, LBMA, U.S. Global Investors

India's demand for gold jewelry in the first quarter of 2018 was down 12 percent from the same period last year. Consumption fell to 87.7 metric tons, compared to 99.2 tons in the first three months of 2017. Contributing to this weakness was the fact that there were fewer auspicious days in the first quarter than in the same three-month period of the past three years, according to the WGC.

However, this followed a monumental fourth quarter 2017, when gold demand was 189.6 metric tons—an all-time record—so a decline was expected.

Outlook on Gold Equities

In the first half of 2018, gold prices and gold miners, as measured by the NYSE Arca Gold Miners Index, were under pressure from a stronger U.S. dollar and rising Treasury yields. This has created an attractive entry point for new and returning investors, as you can see in the chart below. You can sometimes tell which securities look overbought and which look oversold by dividing one index by another. As such, gold equities looked extremely undervalued compared to large-cap stocks as of June 2018, with the ratio well below its 15-year average.

Gold Stocks Highly Undervalued Compared to the Market

NYSE Arca Gold Miners Index / S&P 500 Index, June 2002 – June 2018

Source: Bloomberg, U.S. Global Investors

Looking ahead, I believe there are a number of reasons to be bullish on bullion prices as well as precious metal producers. We've already discussed some of those reasons, including seasonality trends and surging incomes around the world.

Another compelling factor that could lift prices is the growing likelihood that we'll soon reach what experts and analysts call "peak gold." Legendary goldfields such as South Africa's Witwatersrand Basin, Nevada's Carlin Trend and Australia's Super Pit—all nearing the end of their lifecycles—could very well be a thing of the past. Put another way, we may have already extracted the "low-hanging fruit."

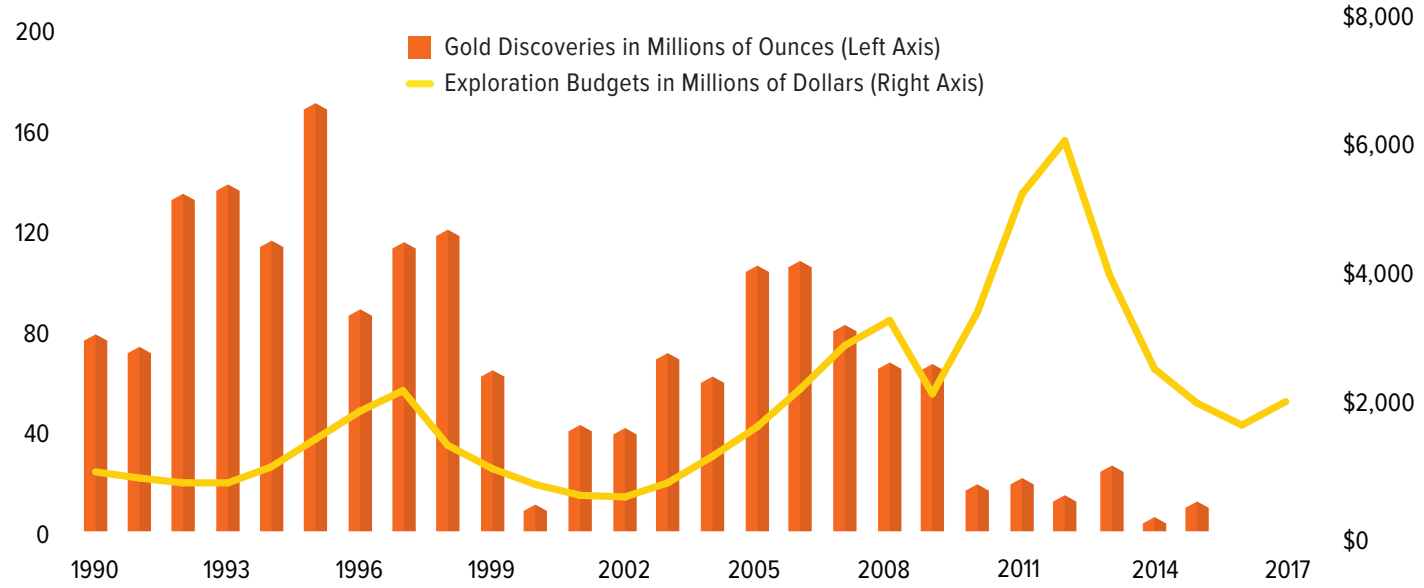
Over the medium and long-term, this supply-demand imbalance could put strong upward pressure on the price of gold, according to my good friend Pierre Lassonde, cofounder and chairman of Franco-Nevada.

Speaking recently to the German financial newspaper *Finanz und Wirtschaft*, Pierre said we're seeing a significant slowdown in the number of large deposits being discovered.

"If you look back to the 70s, 80s and 90s, in every one of those decades, the industry found at least one 50 million+ ounce gold deposit, at least ten 30 million+ ounce deposits and countless five to 10 million ounce deposits," Pierre said. "But if you look at the last 15 years, we found no 50 million ounce deposit, no 30 million ounce deposit and only very few 15 million ounce deposits."

So few new large mines are being discovered today mostly because companies have had to slash exploration budgets in response to lower gold prices. In 2016, total exploration budgets for companies involved in mining nonferrous metals fell for the fourth straight year to the lowest point in 11 years. Although we saw a slight increase in spending in 2017, it still dramatically trails the 2012 heyday.

Gold Discoveries v. Exploration Expenditure



Source: S&P Global Market Intelligence, WGC, U.S. Global Investors

And because it takes seven years on average for a new mine to begin producing—thanks to feasibility studies, project approvals and other impediments—output could recede even more rapidly in the years to come.

"It doesn't really matter what the gold price will do in the next few years," Pierre said. "Production is coming off, and that means the upward pressure on the gold price could be very intense."

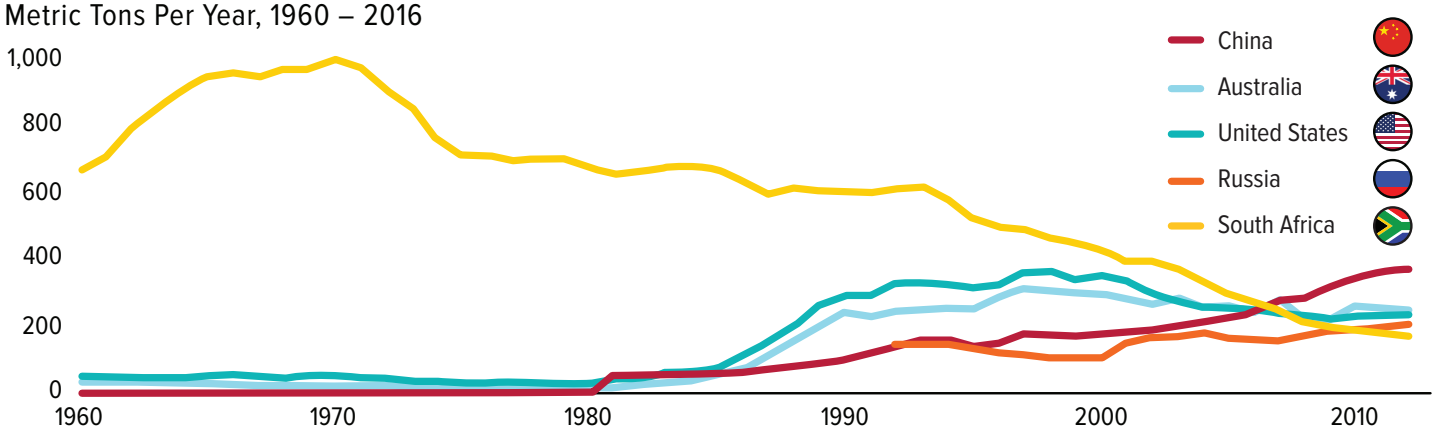
Have We Reached Peak Gold?

Take a look at how drastically annual output has fallen in South Africa, once the world's top gold-producing country by far. In the 1880s, it was the discovery of gold in South Africa's prolific Witwatersrand Basin—responsible for more than 40 percent of all gold ever mined in human history, if you can believe it—that helped transform Johannesburg into one of the world's largest and most populous cities. Today, South Africa's economy is the most advanced and stable in Sub-Saharan Africa, mostly thanks to the yellow metal.

In 1970, miners there dug up more than 1,000 metric tons—an unfathomably large amount. Since then, production has steadily dropped. No longer in the top spot, South Africa produced only 139.9 tons in 2017, an 86 percent plunge from the 1970 peak. Meanwhile, miners in the Mponeng mine—already the world's deepest at 2.5 miles—continue to follow veins even deeper into the earth at greater and greater expense.

South Africa's Gold Output Has Been in Steady Decline for More than 45 Years

Metric Tons Per Year, 1960 – 2016



Source: Michael Thomsen ("Peak Oil and Peak Gold"), U.S. Global Investors

Australia could soon be seeing a similar downturn over the next four decades. A first-of-its-kind study, conducted by MinEx Consulting and released in October 2017, shows that Australia's gold production is expected to see a significant drop between now and 2057. By then, all but four of the 71 currently operating mines in the country will be exhausted, according to MinEx. Most of these will close in the next couple of decades. Any additional production will be dependent on new exploration success, which will become increasingly difficult if companies don't invest in exploration and if the Australian government doesn't relax rules in the mining space.

MinEx estimates that "for the Australian gold industry to maintain production at current levels in the longer term, it will either need to double the amount spent on exploration or double its discovery performance."

To be fair, large discoveries haven't disappeared entirely. In March 2017, it was reported that Shandong Gold Group, China's second-largest producer, uncovered a deposit in eastern China containing between 380 and 550 metric tons of the yellow metal. If true, this would make it the country's largest ever by amount. The mine has an estimated lifespan of 40 years once operations begin.

In addition, Toronto-based Seabridge Gold recently discovered a significant goldfield in northern British Columbia. The find, which appeared after a glacier retreated, is estimated to contain a whopping 780 metric tons.

"There's no question that as glaciers retreat, more ground will become available for exploration and more discoveries could be made in that part of the world," Seabridge CEO Rudi Fronk told Kitco in October 2017.

The company already has the permits to begin mining.

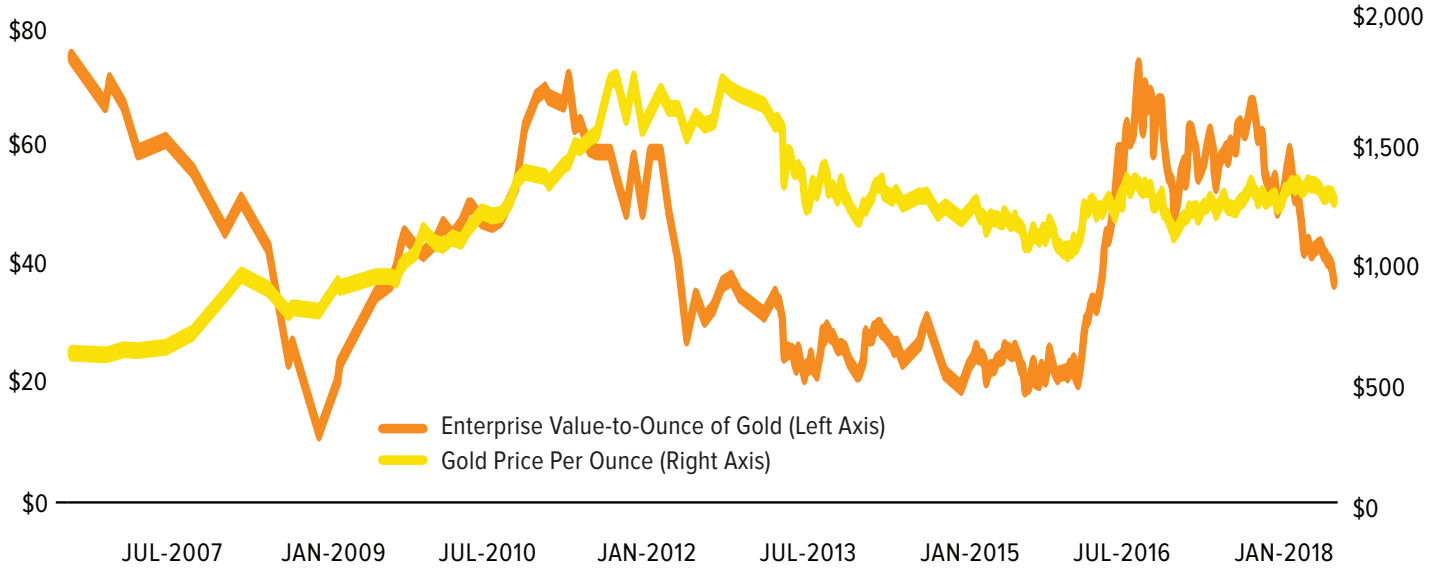
Junior Gold Companies Valuations Look Attractive

As I said earlier, we just saw an encouraging spike in the amount mining companies spent on exploration. According to S&P Global Market Intelligence, exploration budgets increased in the 12-month period as of September 2017 for the first time since 2012. During this period, gold companies spent around $4 billion on exploration, which is roughly half the value of all nonferrous metals mining budgets combined.

But because exploration is getting more expensive for reasons addressed earlier, senior producers might very well decide instead to acquire smaller firms with proven, profitable projects.

This could create a lot of value for investors and shareholders, so I would keep my eyes on juniors that look like targets for takeover. According to RBC Capital Markets, valuations of junior gold companies have compressed in 2018 and sat at $38 per ounce of resources in June, compared to the trailing 12-month average of $54 per ounce of resources. This recent pullback could spur greater mergers and acquisitions (M&A) activity, given that junior miners now have more attractive valuations.

Junior Gold Company Valuations Sit at $38 an Ounce of Resources, Below the Five-Year Average Takeover Multiple of $64 an Ounce



Source: Company reports, Bloomberg, RBC Capital Markets

What's more, "many of the junior companies have been successfully advancing projects while the producers, as a whole, have delivered limited exploration success," according to RBC. For this reason, among others, I expect to see some dealmaking in the metals and mining space in the coming months.

I always recommend a 10 percent weighting gold—5 percent in physical gold, such as coins, bars and beautiful gold jewelry; the other 5 percent in quality gold stocks, such as what we hold in our two precious metals funds, World Precious Minerals Fund (UNWPX) and Gold and Precious Metals Fund (USERX).

We're thrilled to tell you that our Gold and Precious Metals Fund (USERX), managed by precious metals expert Ralph Aldis, holds a five-star rating from Morningstar for the overall, three-year, and five-year periods as of June 30, 2018.

Gold and Precious Metals Fund (USERX)		World Precious Minerals Fund (UNWPX)	
★★★★★	Overall/67	★★	Overall/67
★★★★★	3-Year/67	★★★	3-Year/67
★★★★★	5-Year/64	★★★	5-Year/64
★★★★	10-Year/44	★	10-Year/44
Morningstar ratings based on risk-adjusted return and number of funds Category: Equity Precious Metals Through: June 30, 2018		Morningstar ratings based on risk-adjusted return and number of funds Category: Equity Precious Metals Through: June 30, 2018	

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

Past performance does not guarantee future results.

The Morningstar Rating for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

Gold, precious metals, and precious minerals funds may be susceptible to adverse economic, political or regulatory developments due to concentrating in a single theme. The prices of gold, precious metals, and precious minerals are subject to substantial price fluctuations over short periods of time and may be affected by unpredicted international monetary and political policies. We suggest investing no more than 5% to 10% of your portfolio in these sectors.

The Consumer Price Index (CPI) is one of the most widely recognized price measures for tracking the price of a market basket of goods and services purchased by individuals. The weights of components are based on consumer spending patterns.

The NYSE Arca Gold Miners Index is a modified market capitalization weighted index comprised of publicly traded companies involved primarily in the mining for gold and silver. The index benchmark value was 500.0 at the close of trading on December 20, 2002. The Dow Jones Commodity Index is a broad measure of the commodity futures market that emphasizes diversification and liquidity through a simple, straightforward, equal-weighted approach. The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

Holdings may change daily. Holdings are reported as of the most recent quarter-end. None of the securities mentioned in the report were held by any accounts managed by U.S. Global Investors as of 6/30/2017.

All opinions expressed and data provided are subject to change without notice. Some of these opinions may not be appropriate to every investor.

Sources: Bloomberg, Boston Consulting Group, Brookings Institute, Credit Suisse, Cristian Science Monitory, Gold-Eagle, Indian Cultural Forum, Ken Research, London Bullion Market Association, McKinsey & Company, National Inflation Association, National Post, National Skill Development Corporation, PricewaterhouseCoopers, Sanatan.org, Supreme Court of India, Thomson Reuters, U.S. Government Accountability Office, World Bank, World Gold Council

U.S. Global Investors

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