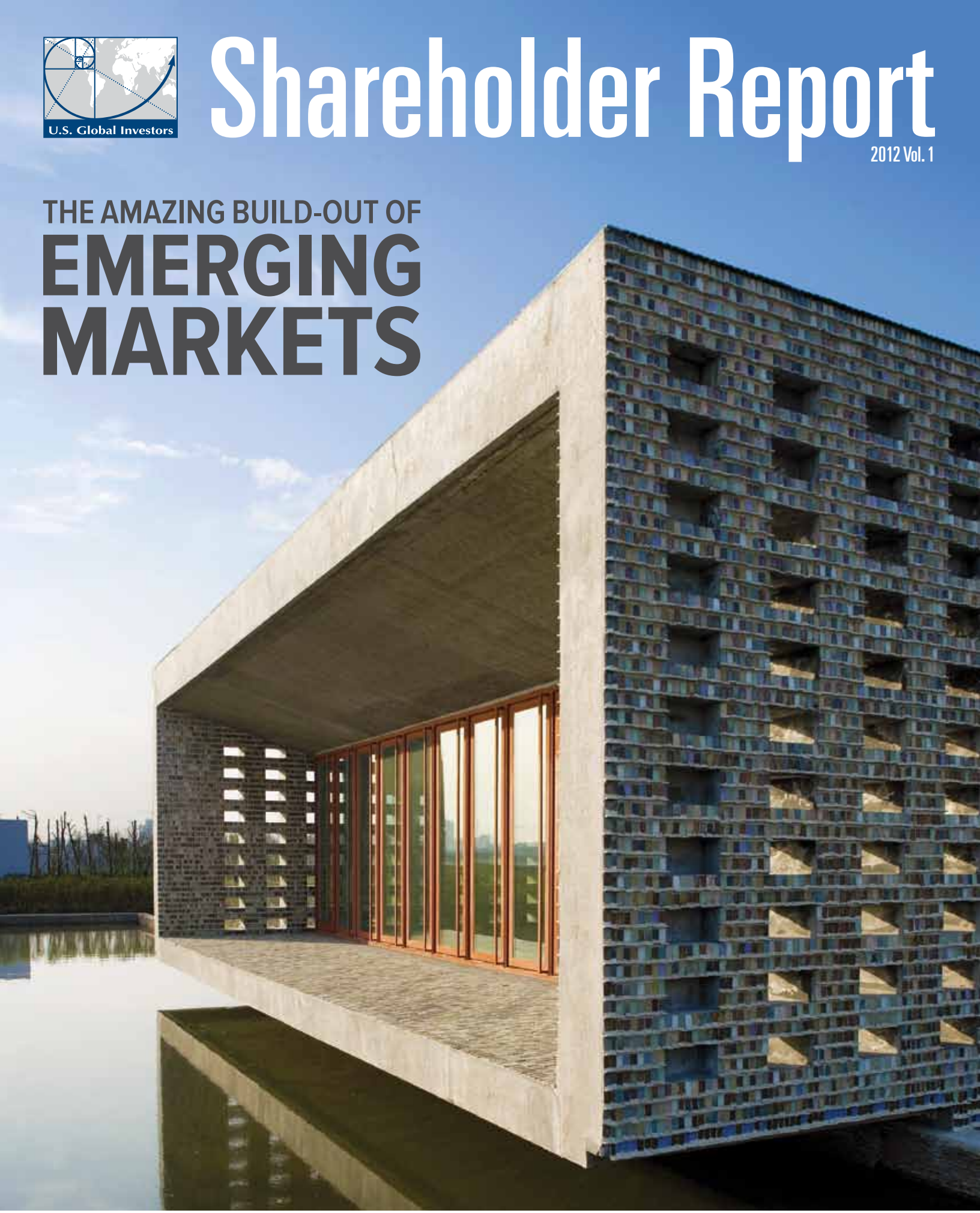
U.S. Global Investors

Shareholder Report

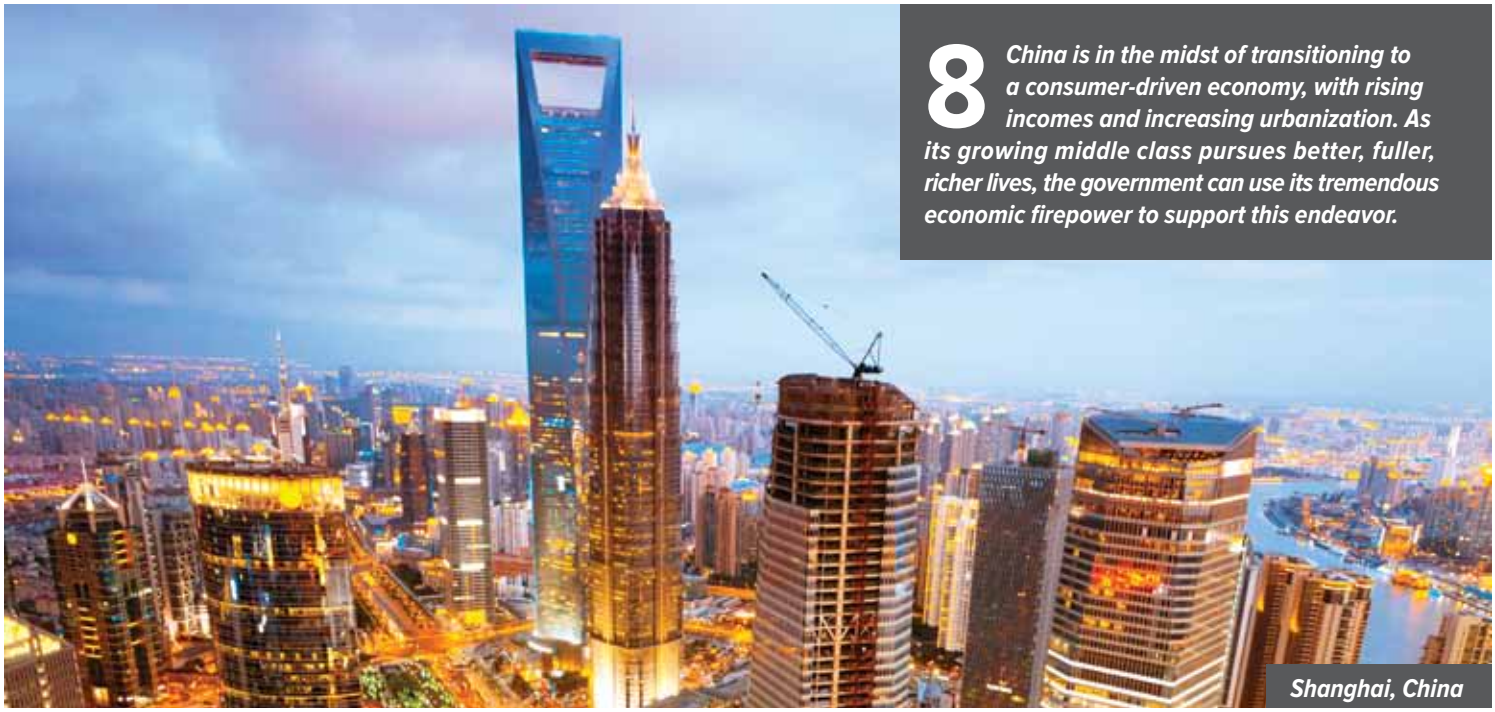
2012 Vol. 1

THE AMAZING BUILD-OUT OF EMERGING MARKETS



Today's Emerging Gold Buyers | What's Expected from an Energy Giant

INSIDE



8 *China is in the midst of transitioning to a consumer-driven economy, with rising incomes and increasing urbanization. As its growing middle class pursues better, fuller, richer lives, the government can use its tremendous economic firepower to support this endeavor.*

Shanghai, China

About the Cover:

Contemporary Chinese culture is being sculpted right alongside its notable skyscrapers. Featured on the cover is Ceramic House in Jinhua, China designed by Chinese architect, Wang Shu. Wang received "architecture's Nobel" prize, the 2012 Pritzker Architecture Prize, which honors a living architect whose work has produced "consistent and significant contributions to humanity and the built environment through the art of architecture."

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The arrow inside means you can find expanded coverage online.

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One of the most debilitating forms of emotion isn't anger, fear or sadness, it's **APATHY.**

Frank Holmes, CEO and Chief Investment Officer

An "I don't care" attitude or an indifference to events caused Helen Keller to once say: "We may have found a cure for most evils; but we have found no remedy for the worst of them all, the apathy of human beings."

Dear Shareholder,

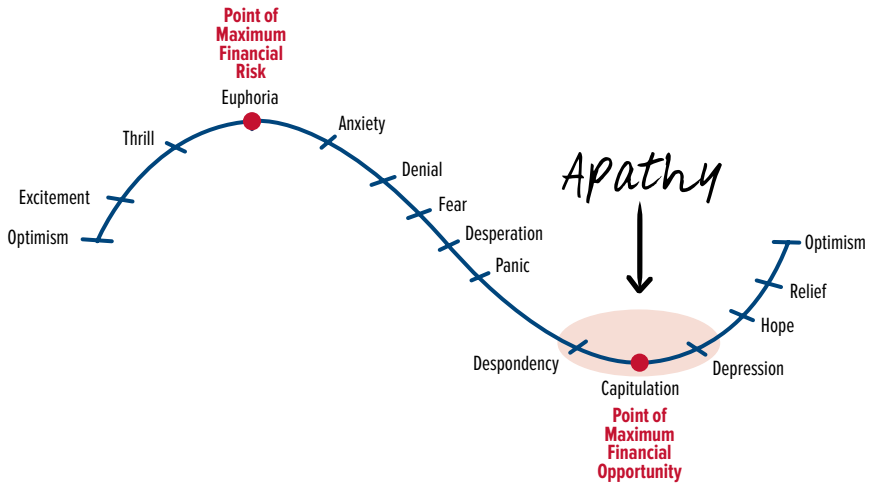
The S&P 500 Index experienced the best two-month start in more than 20 years, yet many investors have continued to temper their excitement.

Investor apathy has reached epidemic proportions lately, because of a lack of political leadership, excessive regulations and market volatility. Some analysts believe volatility has resulted from excessive regulations. Matthew Bishop, the editor of *The Economist*, attracted a lot of attention — even appearing on CNBC — as its cover story confronted an "Over-regulated America." Bishop argues the U.S. has strayed from its "laissez-faire" ideal to "be free to choose, for better or for worse."

For years, I've discussed how government regulation has changed the formation of capital, which then affects job creation and entrepreneurship. Complicated and widespread use of layered-on rules acts as an injection of cholesterol, creating a blockage in the

continued ➔

The Cycle of Market Emotions



Source: FIM Group, U.S. Global Investors

Apathy is a common reaction in the cycle of market emotions where investors generally move from a fear of losing money, to becoming apathetic about the markets, to feeling confident about investments, and finally, to irrational exuberance. **Right now, many investors appear to be stuck in an apathy sandpit.**

economy's bloodstream. Money is the lifeblood of an economy; to keep the arteries and heart of America beating strong and healthy, capital needs to circulate freely. But the cost to comply with new regulations, in terms of dollars, time and resources, has clogged the arteries of enterprise.

The magazine points to the Volcker Rule as one example of the unintended consequences of these new regulations. The rule began with the good intentions of limiting proprietary trading by banks. But with 1,400 questions to verify compliance, it would take one full year to assure compliance if a firm answered 27 questions a week. The cost to comply with this rule causes CEOs and CFOs to be hesitant to hire workers or commit capital to research & development.

Tax incentives act as a dose of Lipitor to help the heart of the economy. While previous presidents have raised taxes, they also streamlined and deregulated industries or provided tax incentives to inspire capital spending to create jobs. For example, in the 1990s, President Clinton streamlined and deregulated the telecommunications industry, unleashing the Internet which was once considered to be a necessary tool to protect our nation.

The *Wall Street Journal* recently reported that corporate tax receipts as a share of profits were at the lowest level in 40 years, mainly because the government gave businesses a tax incentive to deduct investments in goods during the year they were bought, rather than over time. According to the *Wall Street Journal*, this tax incentive "saved companies roughly $55 billion in corporate income taxes over each of the past two years." The billions that companies saved allowed them to spend the money elsewhere. And spend they did, as capital spending reached $150 billion in 2011. This multiplier effect acted as a successful treatment for the U.S. economy, with businesses expanding and creating jobs for American citizens.

We believe there is a cure for the apathetic investor.

It is often said that great bull markets climb a wall of worry before stocks soar to higher highs. Although the economy will still be expected to run faster with clogged arteries, I believe investors who fight apathy while staying cognizant of the risks will participate in the historical long-term performance of the market.

Sincerely,

Frank Holmes

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

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Don't miss a blog entry from Frank—get your free update by email by subscribing today.

Foreign and emerging market investing involves special risks such as currency fluctuation and less public disclosure, as well as economic and political risk. Because the Global Resources Fund concentrates its investments in a specific industry, the fund may be subject to greater risks and fluctuations than a portfolio representing a broader range of industries.

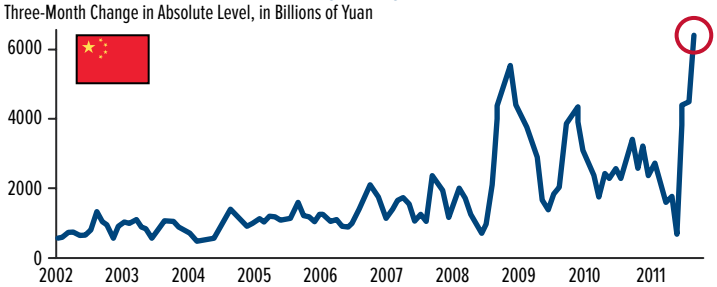
The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies. The S&P 1500 Composite is a broad-based capitalization-weighted index of 1500 U.S. companies and is comprised of the S&P 400, S&P 500 and the S&P 600. The MSCI Emerging Markets Total Net Return Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in emerging market countries on a net return basis (i.e., reflects the minimum possible dividend reinvestment after deduction of the maximum rate withholding tax). M2 Money Supply is a broad measure of money supply that includes M1 in addition to all time-related deposits, savings deposits and non-institutional money-market funds.

5 Cures for What Ails Investors

Just like you wouldn't be apathetic about spending all day on the golf course without sunblock to protect from skin cancer, investors should protect themselves in the stock market. One way is to make your political opinion known by contacting your Congressman. Another way is to think contrarian, taking note of historical cycles to reveal trends you can use to your advantage. **Here are five:**

1 **The global liquidity boom that began in December has initiated the resurgence of markets around the globe.** In total, 99 countries have instituted stimulative measures since August 2011 designed to inject money into the system to stimulate economic growth. As one example of this powerful momentum, China saw a record increase in money supply after its government switched its policy to easing mode in December.

Record Increase in China's M-2 Money Supply
Three-Month Change in Absolute Level, in Billions of Yuan

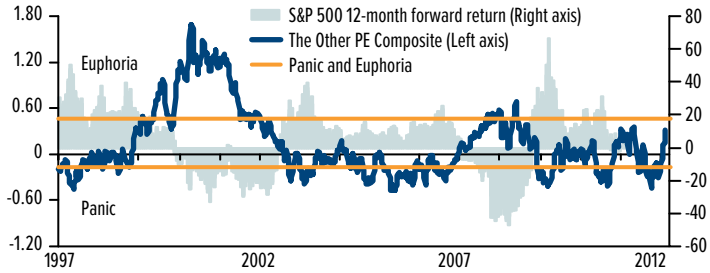


Source: Weldon Financial

2 **Investor attitudes improved, which tends to significantly affect market performance.** Back in early October, we discussed how Citigroup's Panic/Euphoria model, which measures a combination of nine facets of investor beliefs and fund managers' actions, had been stuck in panic mode for months.

This was a signal to us that market sentiment was destined to improve and lift share prices with it. Through February, the S&P 500 jumped 18 percent and is currently at levels not seen since before the credit crisis. Small caps have felt an even greater lift, rising 26 percent over the same time period.

Citigroup's Panic/Euphoria Model No Longer in Panic Mode



Source: Haver Analytics and CIRA – US Equity Strategy

3 **More companies are growing their revenues:** Among the stocks in the S&P 1500 Index, about half have more than 10 percent revenue growth, faster than the U.S.'s overall GDP.

4 **Low interest rates have upped the attractiveness of equities, specifically dividend payers.** Today, nearly 70 percent of the S&P 500 companies boast a dividend yield that is higher than the yield on a 5-year Treasury. This number is even higher for the companies in the MSCI Emerging Markets Index. Shareholders get the double benefit of potential appreciation, along with regularly paid income.

Dividend Payers Offer Attractive Yields
Percentage of companies in respective index with higher annualized dividend rate than the 5- or 10-Year Treasuries

	5-Year Treasury (0.86%)	10-Year Treasury (1.97%)
S&P 500 Index	67%	41%
MSCI Emerging Markets Index	78%	53%

Data as of 2/29/12 based on 12 month dividends
Source: Bloomberg

5 **Higher gas prices at the pump benefit certain natural resources companies.** By investing in a natural resources fund, such as our Global Resources Fund (PSPFX), you'll have access to energy and materials stocks that should profit from rising oil prices.

We look for opportunities everywhere.

WHY CHINA'S "BLINDSIDE" COULD BE A GREAT BUYING OPPORTUNITY

Keith Fitz-Gerald,
Chief Investment Strategist,
Money Morning

An excerpt from
www.moneymorning.com
on January 6, 2012

There's not a day goes by that I don't see some variation of the theme that China is going to crash, or that somehow that nation will blindside us, and that its markets may fall 60 percent.

This is like saying the U.S. markets were in for a hard landing in March of 2009 after they had fallen more than 50 percent. Folks who bit into this argument and bailed not only sold out at the worst possible moment, but then added agony to injury by sitting on the sidelines as the markets tore 95.68 percent higher over the next two years.

People forget that the U.S. stock market — as measured by the Dow Jones Industrial Average using weekly data — fell more than 89 percent from 1929 to 1932, more than 52 percent from 1937 to 1942, and more recently experienced a decline of more than 53 percent from 2008 to 2009 — and that doesn't even account for four 40+ percent declines beginning in 1901, 1906, 1916, and 1973.

Each was a great buying opportunity, and following those meltdowns, our markets rose more than 371 percent from 1929 to 1932, more than 222 percent from 1949 to 1956, more than 128 percent from 1937 to 1942, and more than 95.68 percent in just over two years starting in March 2009 — one of the fastest "melt-ups" in market history.

People forget that our nation endured two world wars, a depression, multiple recessions, presidential assassinations, the near complete failure of our food belt, not to mention the deadliest terrorist attacks the world has ever seen, and more.

And guess what? It's still been the best place to invest for the last 100 years.

So what if China backs off or slows down?

The Asian currency markets blew up in 1997. Mexico's market fabulously went up in smoke during the great tequila crisis of 1994. And Argentina failed to the tune of a 76.9 percent crash starting in 1997 only to give way to a 1,724.56 percent rally from 2001 to 2011.

Gold rose by more than 600 percent in the 1970s, then fell by 50 percent, which terrified investors at the time. It subsequently rose by more than 850 percent.

China is undoubtedly going to have several hard landings in our lifetime. Despite the fact that China is thousands of years old, modern China is a mere 40 years old.

And today's China has 1.3 billion people — **all of whom want to live the way you do.**

It's growing by an average of 9 percent a year or more and has done so every year for the last 41 years straight. We've just poured an estimated $7.7 trillion into our economy and the best we can do is 2.5 percent. The European Union (EU) is on track for 0.2 percent growth in 2012 after trillions in euro backing there.

Don't Miss Out

I'm not saying China is going to have smooth sailing — but then again, neither did the U.S. in the 20th century, and the Dow gained 24,000 percent over that 100-year period. China is merely going through the first uncomfortable growing pains of its adolescence.

Remember, in 1912 the U.S. still used child labor, had massive inequalities of wealth, and women still couldn't vote. So holding China to the same standards as the modern U.S. is inappropriate, considering the country has only been open to the rest of the world for 40 years.

You have to look at China appropriately. You can't arbitrarily force the 21st century U.S. lens onto other countries in a vain effort to judge them.

The point is, many people look down upon China with the same sort of derision once reserved for post-war Japan. And if you grew up in the 1950s or 1960s and thought Japan was only for cheap tin toys and didn't invest there, you missed out.

Keep in mind that China's economy is roughly one-third the size of the overall U.S. economy and growing fast. Together America and the EU are approximately 10 times the size of China.

So if it does suffer a major correction, it's not the end of the world — nor the financial markets. And if the markets fall by 60 percent next year as some people suggest, I know what I'll be doing... buying. ■

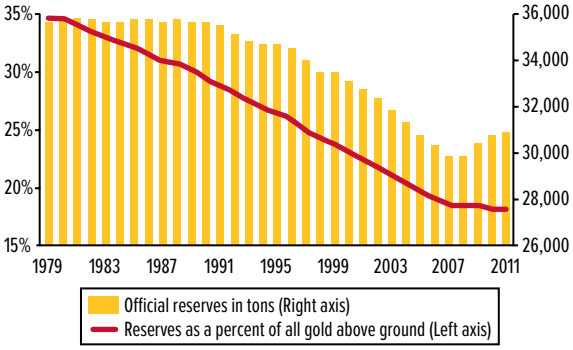
There have been many gold buyers throughout the ages from the Sumer civilization to the Egyptians to Rome and Spain. For centuries, families in India have been buying gold jewelry for weddings and holidays. Today, Chinese are purchasing bullion from vending machines. Now, there's an additional source of demand.

CENTRAL BANKS BECOME A MAJOR GOLD BUYER

For the past few decades, central banks have been considered a supplier of gold. After building up their reserves during most of the post-World War II period, central banks' gold holdings remained stable. Following the end of the Cold War, they began a selling spree, helping to "explain bullion's profound price weakness" during the 1990s, says HSBC Global Research.

The trend started to reverse about the same time the Federal Reserve cut interest rates in 2007, says Adrian Ash from BullionVault. Total gold holdings are now at a six-year high with the total current amount of gold reserves sitting around 31,000 tons. The World Gold Council (WGC) says central banks had a net purchase of 440 tons in 2011, the highest figure since 1964.

World Official Gold Reserves



Source: BullionVault via WGC, IMF, GFMS

The countries buying are large and small, but largely located in emerging markets, including Latin America, Central and Eastern Asia. The central bank of Mexico purchased around 100 tons in 2011. Russia has been routinely adding to its gold reserves since 2005, and in 2011, the country purchased about 75 tons; Kazakhstan purchased 3.1 tons and Mongolia bought 1.2 tons. Thailand and the Philippines, Turkey, South Korea, Bolivia and Venezuela have all added to their gold holdings, says HSBC. UBS says "although reported volumes are not very large, it is still an extension of the official sector accumulation trend."

The "rapid accumulation of huge amounts of U.S. dollars in foreign exchange reserves of many emerging market central banks leaves them underweight gold," says HSBC. The WGC says central banks are concerned about the creditworthiness and low yields of their existing reserve assets held in dollars and the euro. **Their solution: diversify with gold.**

This shift in central bank behavior has "major implications for the gold price," says Marcus Grubb from the WGC. HSBC expects central banks will remain a net buyer of bullion for another five years. As demand holds up from the many different buyers around the world, gold will likely head higher. ■

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Learn more about the history of gold by viewing our interactive timeline.

DID YOU KNOW?

Now residents of China can purchase gold bars and coins through a vending machine. Within the next two years, 2,000 more gold ATMs are anticipated in China.

Utah became the first state to recognize gold as an alternative form of legal tender. No capital gains or other states' taxes can be levied on the metal.

Gold facials are popular among women in Bangkok, Thailand. According to the *Wall Street Journal*, the higher the price of gold, the higher the demand for gold treatments.

The Supercycle of CHINA

Shanghai, China

With rising incomes and increasing urbanization, we believe China is in the midst of pursuing the American Dream. To support this endeavor, the government has shown great determination to build the necessary infrastructure along with a robust urban labor market.

Still research shows that China is only in the middle of its supercycle with several stages to come. Supercycles, or what we call S-curves, are long, continuous waves of boom and bust inherent in human history. While the overall trend rises, periods of volatility are an intrinsic part of this supergrowth. Not every down period is a sign of demise — even a broken clock is right twice a day. To manage expectations, it's wise to understand the difference between short-term corrections and secular long-term bear markets.

Just as a healthy market needs a compromise between the bid price and the ask, investors need critical thinking to help weigh the drivers and detractors of growth.

Critical thinking is vital to our investment process to ensure that assumptions are questioned. Our portfolio management team practices this critical-thinking process through a weekly S.W.O.T. (Strengths-Weaknesses-Opportunities-Threats) analysis of key factors influencing global markets. By hammering out positives and negatives, we can paint a realistic picture and avoid pitfalls.

Lack of critical thinking can lead to bubbles, such as the one taking place in the parabolic rise in the number of articles foretelling China's supposed "hard landing." Last fall in one month alone, more than 1,000 articles questioned the possibility of a crash, according to data from BCA Research. This number is twice as high as the number in 2004, when fear articles reached 500.

Investment Strategist Keith Fitz-Gerald wrote an excellent article comparing today's doomsday sentiment of China to the naysayers who forecasted the demise of the U.S. during the market bottom of March 2009. You can read an excerpt of that article on page 6.

continued

China has more **fiscal and monetary**

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The dialogue about China's growth continues online. View the webcast featuring Frank Holmes and CLSA's Andy Rothman today.

While "risks certainly cannot be taken lightly," BCA Research believes that the threat of a China crash is "exaggerated." For example, bears often point to "shadow" banking practices to support their case.

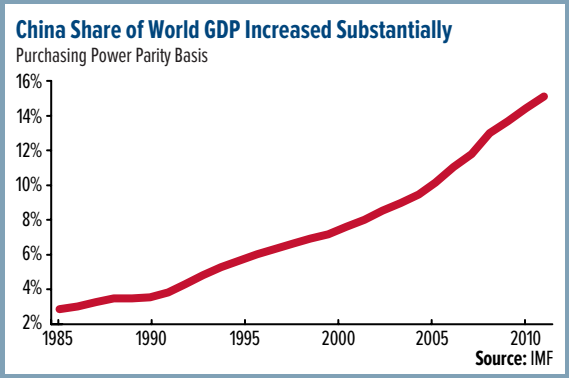
Keith writes that Beijing was "deliberately tapping on the brakes," in 2009, when the central bank increased the reserve required ratio for commercial banks, effectively reducing the amount of money banks could loan. This resulted in a sharp decrease in the amount of credit available and significantly increased rates from 4.78 percent to 8.06 percent, according to BCA.

One negative consequence of China's quantitative tightening was that it forced some private firms unable to gain loans from state-controlled banks to seek credit from "loan sharks at sometimes deathly high borrowing costs," says BCA.

We sent our research analyst to his home country of China to find out how prevalent this problem was. The Shanghai-native Xian Liang joined an investigative tour led by research firm China International Capital Corporation (CICC) to the Zhejiang Province. His group had access to executives from banks, private lenders and local government agencies, many of which he found knowledgeable and shrewd.

During his research trip, he learned about an extensive survey done by Alibaba of 2,800 smaller and medium enterprises, which showed that half of the enterprises needed external financing, and the companies that currently borrow from banks — only 13 percent of Alibaba's sample — faced pretty stringent risk management practices.

China has experienced setbacks in its modern history, including the Tiananmen Square protests, the Asian financial crisis of 1997, and the SARS scare. Through these events over the last 30 years, China's average annual real GDP has grown 10 percent.



firepower *than several emerging markets.*

For example, one commercial bank that lends primarily to smaller companies checks the electric and water meters of the businesses to make sure they are actually using energy. They delve into the personal habits of the private entrepreneurs to gauge if the executives are creditworthy and financially sound, as it is believed that character has a lot to do with one's willingness and ability to repay.

Overall, Xian understood the alleged systemic credit risks in the banking system to be manageable at this point. The government had been prudent to not only raise interest rates six times, but it also increased the reserve limit banks must set aside against loans.

BCA identified an additional unintended consequence of the tightening. Some banks tried to bypass tight regulatory controls so they could extend credit, leading to an "increase in off-balance-sheet activities," according to BCA. This activity was recognized by the government, and the central bank has "increased its oversight of off-balance-sheet items."

BCA says that in a way, "'shadow' banking activity can be viewed as an attempt by market participants to create more market-driven interest rates."

In a report of Asian banks, CLSA Asia-Pacific Markets found that non-performing loans (NPL) — those assets not yet delinquent but that have fallen behind schedule — remain near a 12-year low in China, and the NPL-to-loan ratio is under 1 percent. This default rate is extremely low compared to the 1999 – 2002 timeframe, and it is believed that no large debt defaults are expected due to China's ability to create liquidity.

Keith Fitz-Gerald says the government has an abundance of liquidity. It has set aside $3.2 trillion in reserves, amounting to half of the country's entire GDP. Keith says this could potentially be spent on recapitalizing its banking sector, with "plenty of money to spare."

Other than reserves, China has more fiscal and monetary firepower than several emerging markets. *The Economist* analyzed 27 emerging markets and ranked each country's ability to ease monetary policy, taking into consideration inflation, excess credit, real interest rates, currency movements and current-account balances. Then it created a "fiscal-flexibility index" which included government debt and the budget deficit. A score of 100 means a country has no flexibility to ease policies; a score near zero means a greater ability to "let out the throttle."

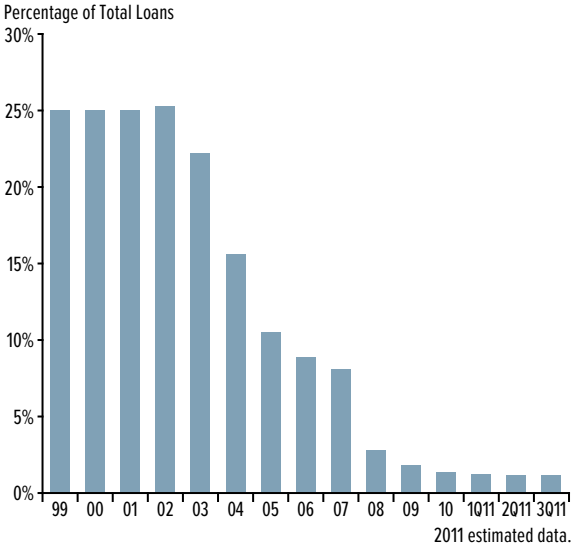
The chart at right "suggests that China, Indonesia and Saudi Arabia have the greatest capacity to use monetary and fiscal policies to support growth," compared to other listed emerging markets, says *The Economist*.

Many bearish articles last fall relied on generalities taken out of context, offering anecdotal evidence of ghost cities, empty shopping malls, robber barons, worker suicides and citizen protests as reasons the country was headed for a collapse. Highlighting China's economic imperfections is akin to suggesting the U.S. is a poor nation because impoverished areas still exist. As analysts, our job is to research and make a rational determination whether the facts are material or superfluous.

As our team weighs the evidence of China's economy, we believe moments such as these offer buying opportunities for global investors. ■

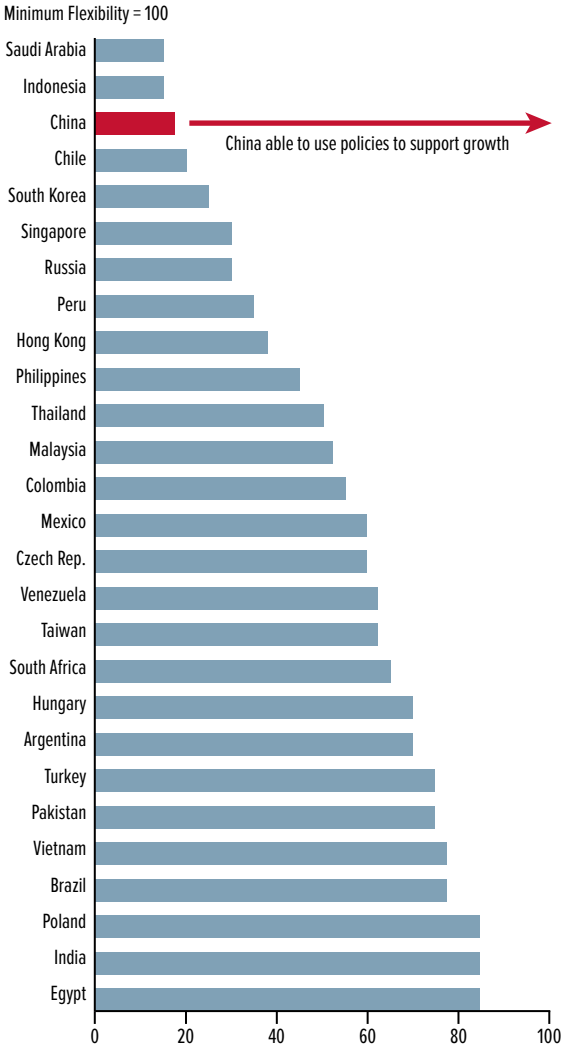
None of U.S. Global Investors Funds held any of the securities mentioned as of 12/31/11.

China's Non Performing Loans Ratio Remains Near Historic Low



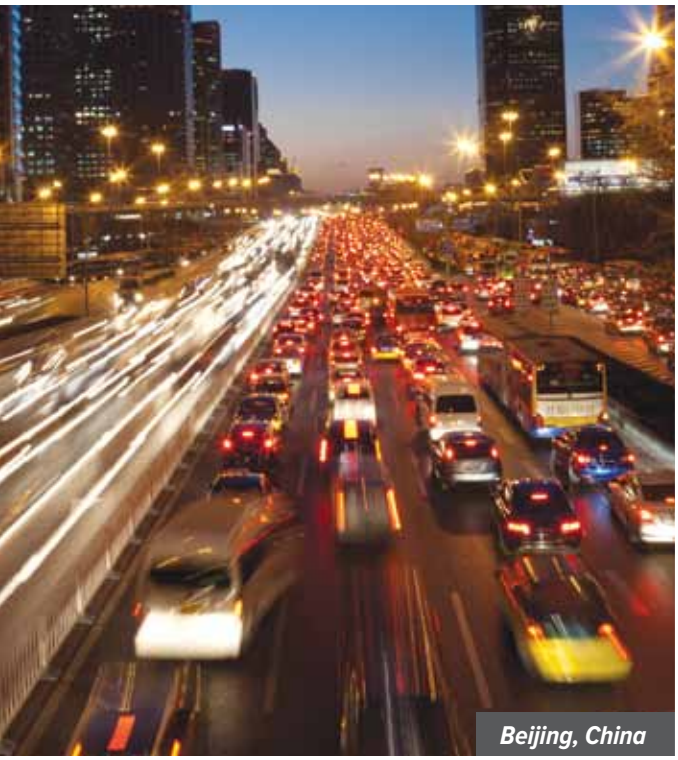
Source: Company reports, CLSA Asia-Pacific Markets

China Has Room to Ease Fiscal and Monetary Policy*



*Based on inflation, interest rates, credit, exchange rates, current-account balance, budget balance and government debt

Source: *The Economist;* EIU; Haver Analytics; IMF; UBS



Beijing, China

PEERING THROUGH EXXON'S LOOKING GLASS

When the world's largest energy company offers you a glimpse into where it believes the market is headed, we take notice, as it is certain to provide insight for global investors.

Ulan Bator, Mongolia

Look to the emerging world to push global energy demand 30 percent higher by 2040, ExxonMobil says in its latest *Outlook for Energy: A View to 2040* report. While the global population should reach a staggering 9 billion over that period, it isn't population growth that is anticipated to drive the increase in energy demand — it's rising affluence and higher living standards in places such as Africa, Latin America, the Middle East and India. ExxonMobil says this is due to "the human desire to sustain and improve the well-being of ourselves, our families and our communities."

This new affluent class of people is expected to fuel a dramatic increase in the number of households around the world — rising 50 percent to 2.8 billion by 2040. ExxonMobil anticipates strong growth in Africa, China, India and Latin America, accounting for about 60 percent of all households worldwide

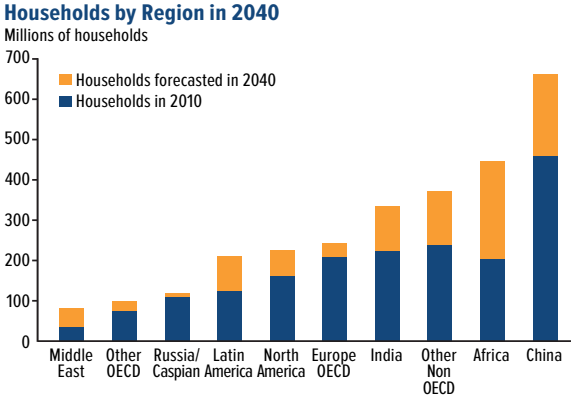
Oil should remain the world's top energy source, and natural gas appears to be the fastest-growing, with combined global demand expected to rise about 60 percent from 2010 to 2040.

Satellite dishes on the rooftops of buildings in Fez, Morocco

by the end of the forecast. Additionally, the number of personal vehicles is expected to double to 1.6 billion vehicles all around the world.

Today, roughly 1.3 billion people, one-fifth of the world's population, lack access to electricity. These new households will likely demand energy for lighting, heating, cooking, hot water, air conditioning and refrigeration, ExxonMobil says, driving electricity generation to be the fastest-growing source of energy demand through 2040, up around 80 percent. Industrial and commercial sectors are two other main sources of demand growth.

Households by Region in 2040



Source: ExxonMobil

While China is forecasted to remain the world's largest user of industrial energy, ExxonMobil says the country may see a peak in the country's energy demand around 2030. Meanwhile, Africa and India are anticipated to become the two main drivers of new demand over this time period as the number of households, retail stores and other commercial activities in those regions increases dramatically. Industrial demand for energy in India is expected to triple by 2040.

The total amount consumed isn't the only area of the energy sector set to experience changes in the coming decades. ExxonMobil also says "investments and new technologies, applied over many years and across multiple regions, will enable energy supplies to grow and diversify." While oil is expected to remain the world's top energy source, natural gas appears to be the fastest-growing, with combined global demand expected to rise about 60 percent from 2010 to 2040.

After peaking around 2025, demand for coal will experience its first long-term decline since the start of the Industrial Revolution as OECD countries and China shift toward lower-emitting sources of energy. However, ExxonMobil anticipates oil, natural gas and coal to account for about 80 percent of the world's energy demand in 2040.

In today's rapidly developing world, it's important to keep in mind that these are only projections. While there will be temporary setbacks and unforeseen events, ExxonMobil's report illustrates how the supercycle growth in emerging markets is set to continue over the next several decades. ■

The following security mentioned in the article was held by one or more of U.S. Global Investors Funds as of December 31, 2011: ExxonMobil.

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See how natural resources have performed over the last 10 years in our interactive *Periodic Table of Commodity Returns*.

Moscow, Russia

During a trip to Moscow earlier this year, Eastern European Fund (EUROX) co-manager **Tim Steinle** captured the investment and political climate shortly before Putin's return to power. Here are excerpts from our discussion with Tim.

We say policy can affect the economy and the markets. With Putin's reelection all but certain, how did you see the public react?

At that time, the streets were filled with protestors. One man who led the opposition movement was Alexey Navalny. Trained as a lawyer, he positioned himself as a defender of minority shareholder rights against state-owned companies. He alleges a theft of $4 billion from pipeline operator Transneft that the government refuses to prosecute. Also, Navalny points out that few management boards have independent directors, and even though by law just 2 percent of shareholder votes are sufficient to nominate a director, all nominations are done by the state.

What do you think the protestors wanted to accomplish?

There is a yearning for positive change among the reform-minded intelligentsia, the name given to Russia's intellectual social class. The intelligentsia also pushes for a fair playing field and registration for political parties and a free media. Navalny has waged a battle of a thousand cuts to increase the stress on the regime he says is "on manual control." Historically speaking, reformers such as Kruschev, Gorbachev, Yeltsin, and Putin came from within the system. Navalny was clearly on the outside looking in.

You also met Alexei Kudrin, Russia's former minister of finance. Tell us more about him.

Alexei Kudrin served as Russia's minister of finance from 2000 until September 2011. He was the longest-serving finance minister in post-Soviet Russia, credited with prudent fiscal management and a champion of the free market. He helped Russia weather the global financial crisis in 2008 by creating reserves which held a portion of the revenue from oil exports in a stabilization fund despite strong opposition from others who wanted to spend the money. Those savings were crucial to Russia's economy when the crisis hit and oil prices dropped.

What growth expectations does Kudrin have for Russia?

Over the past 10 years, Russia's GDP grew at a robust pace of 7 percent annually and Russian companies greatly benefited from profits reinvested in their businesses. Russia's growth story now turns to value as Kudrin expects Russia to grow at a much slower pace, averaging around 4 percent.

How does this change your investment prospects for the Eastern European Fund?

At U.S. Global, we generally look for growing, profitable and well-run companies that demonstrate significant growth in three key areas: revenue, earnings and return on equity. In Russia today, we are finding many large-cap businesses have started to meet our criteria. Additionally, many of these companies can be purchased at low valuations. Whereas the price-to-earnings ratio for the Russian MICEX Index has averaged near 10 times since 2003, it is currently at 5 times.

What else is attractive in Eastern Europe?

Increasingly, Russian companies have begun paying dividends too, with some companies paying as much as a 10 percent annual dividend. As interest rates around the world will remain low or even negative for years to come, dividends offer investors the opportunity to earn income with the potential of appreciation.

For the Eastern European Fund, I like those dividend-paying businesses run by owners who have invested their own capital and have a track record of growth. ■

Foreign and emerging market investing involves special risks such as currency fluctuation and less public disclosure, as well as economic and political risk. By investing in a specific geographic region, a regional fund's returns and share price may be more volatile than those of a less concentrated portfolio. The Eastern European Fund invests more than 25% of its investments in companies principally engaged in the oil & gas or banking industries. 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.

The MICEX Index is the real-time cap-weighted Russian composite index, comprising 30 most liquid stocks of Russian largest and most developed companies from 10 main economy sectors. Holdings in the Eastern European Fund as a percentage of net assets as of 12/31/11: Transneft: 0.0%.

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GET TO KNOW

Tim Steinle,
Co-manager,
Eastern European
Fund (EUROX)

Where were you born? Baku, Azerbaijan

Where have you lived? Austin, Baku, Cincinnati, Houston, Moscow, San Antonio

Credentials: MBA in computational finance from the University of Texas at Austin; Undergraduate degree in electrical engineering at Azeri Petroleum Institute in Baku; CFA charterholder; fluent in Russian

Favorite subject in school: Anything math-related—algebra, geometry, trigonometry, calculus, modeling financial derivatives

Quote to live by: "Mens sana in corpore sano" (A sound mind in a healthy body)

Book you're reading now: *Blood in the Streets: Investment Profits in a World Gone Mad*, by James Dale Davidson and William Rees-Mogg

How do you spend your free time? Play chess, read biographies, study modern and ancient history

Favorite sport: Tennis

Favorite film: *Papillon* with Steve McQueen

Last country to stamp your passport? Russia

Shareholder Report
U.S. Global Investors
P.O. Box 659405
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Please join me this Friday...

Every Friday night, I ask our portfolio managers to reflect on the week—the market's ups and downs, the geopolitical and economic events that affected your investments. They prepare an email report highlighting the strengths, weaknesses, opportunities and threats we see on the horizon.

In each issue, we add a special timely commentary from me or our research director, where we share our views on a critical investment story.

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Wishing all peace and prosperity,

Frank Holmes

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