



New IRS Cost Basis Reporting Guide

Under new IRS regulations, mutual fund companies must begin reporting cost basis for shares purchased on or after January 1, 2012 (known as covered shares). As a result, U.S. Global Investors has elected to use the Average Cost Method for all current and future accounts. For a description of other IRS-approved methods, see the Cost Basis Accounting Methods section of this guide.

What is Cost Basis?

Cost basis is generally the price you pay for your shares (purchase price) adjusted for stock splits, reinvested dividends and capital gains, and return of capital distributions. The cost basis of your shares will determine if a sale results in a gain or a loss (for tax-reporting purposes).

Covered versus Non-Covered Shares

Covered shares are shares purchased on or after January 1, 2012. Tax Form 1099-B will now provide cost basis information for covered shares to both the shareholder and the IRS. Non-covered shares are those purchased on or before December 31, 2011. They will continue to be reported as they have in the past — only the gross proceeds will be reported to the IRS.

	Covered	Non-Covered
Purchase date:	On or after 01/01/2012	On or before 12/31/2011
Form 1099-B reporting — Shareholder	Cost basis information will be provided.	If available, cost basis information will be provided.
Form 1099-B reporting — IRS	Cost basis information will be provided.	No cost basis information will be provided. (Only the gross redemption amount will be reflected on Form 1099-B.)

Accounts Affected by the New Regulations

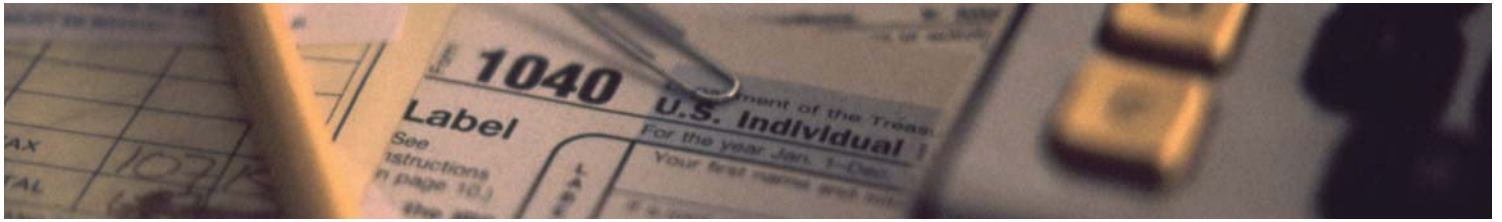
The IRS regulations will affect only taxable accounts. As a result, cost basis information will not be provided on retirement, non-profit, and business accounts (except for S-corporations). While cost basis will not be provided on accounts with only money market funds, shareholders can elect a cost basis method for future funds/accounts.

Cost Basis Accounting Methods

The IRS has approved the following methods for calculating cost basis.

Important: Please note that U.S. Global Investors' representatives are unable to provide tax advice. Please consider speaking with a tax advisor to determine which method best suits your needs.

Method	Description
Average Cost	This method calculates an average cost per share by dividing the total of all investments (including reinvested dividends and capital gains) by the total number of shares in the account. Note: This method will be the default method chosen for your covered shares. No action is required to select this method.
First-In, First-Out (FIFO)	Shares purchased first (the oldest shares in the account) are the first shares sold.
Last-In, First-Out (LIFO)	Shares purchased last (the newest shares in the account) are the first shares sold.
High-Cost, First-Out (HIFO)	Shares purchased at the highest price per share are the first shares sold (regardless of purchase date).
Low-Cost, First-Out (LOFO)	Shares purchased at the lowest price per share are the first shares sold (regardless of purchase date).
Loss/Gain Utilization	Shares are sold with the objective of minimizing gains. Shares that represent a loss are sold before shares that represent a gain. For shares that yield a: Loss — Shares owned one year or less (short-term shares) will be redeemed before shares owned more than one year (long-term shares). Gain — Long-term shares will be redeemed before short-term shares.
Specific Lot Identification (SLID)	Specific shares are selected by the shareholder each time shares are sold. Important: A secondary method is required in the event the lots you have chosen are not available. You can select one of the following: <ul style="list-style-type: none"> • FIFO — Will be used if no secondary election is made. • LIFO • HIFO • LOFO • Loss/Gain Utilization



Average Cost is U.S. Global Investors' Default Method

Average Cost will be the default cost basis method used by U.S. Global Investors. This method will be automatically assigned to all covered shares, in all existing and future accounts. **No action is required if you wish to keep Average Cost as your cost basis method.**

Selecting a Different Cost Basis Method

To choose a different cost basis method for your accounts, please complete the *Cost Basis Election Form* or log in to your account at www.usfunds.com. Telephone requests cannot be accepted due to current IRS regulations.

Important: If you decide to change from the Average Cost method after December 31, 2011, the change will be done as a revocation if the request is made before the earlier of:

- December 31, 2012
- **–or–**
- The first sale of *covered shares*. (A sale of non-covered shares will not affect your revocation period. Non-covered shares will be sold before covered shares.)

Revoking the Average Cost method within the time period just outlined allows you to apply your newly elected method retroactively for all covered shares in your account.

If the change is made after the designated time period just outlined, your newly elected method will apply only to shares purchased after the change. Covered shares in your account that were purchased before the change will retain the Average Cost calculation method.

Obtaining More Information

To learn more about the new Cost Basis legislation, visit the IRS website at www.irs.gov. You can also view a list of frequently asked questions at our website, www.usfunds.com.