Priming the Pump for Growth in Emerging Markets Now

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John Derrick, CFA, Director of Research
Xian Liang, CFA, Portfolio Manager

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Today’s Presenters

Frank Holmes  
John Derrick  
Xian Liang
Did You Know?

India has 600 million people under the age of 25. That’s 2 times the entire population of the U.S.

India’s stock market was up 32% in 2014.
Facebook Use Around the World
1.2 Billion People Connected Without Passports!
It took 9 years to have a billion people connected.

See Disclosures page for any holdings in funds mentioned.
The EU Trades More with China than the U.S.

China’s Major Trading Partners
The EU Surpasses the U.S. as China’s Biggest Trading Partner

Source: European Commission, U.S. Global Investors
Low Oil Prices Have Benefited Chinese Airlines

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

See Disclosures page for any holdings in funds mentioned.
Just Back From Africa
Goods Trade with Africa in 2013

Billions of Dollars

Improving Macro View for Emerging Europe

• Currencies weak

• Oil prices lower

• European Central Bank (ECB) and other central banks easing

• Europe is turning the corner
In the News: Central Bankers’ Monetary Policy

Central Bankers Ramp Up Currency Wars

What Will Russia’s Central Bank Do Next?

Singapore loosens monetary policy

Suddenly, India Cuts Interest Rates

Quantitative easing around the world: lessons from Japan, UK and US

Sweden’s unconventional monetary policy would be no bazooka

The Swiss Euro Peg Abolishment and its Consequences

Australia’s Central Bank on Track for Rate Cut

European Central Bank unveils big new stimulus program

Denmark Cuts Deposit Rate Again

Loonie drops below 80 cents US

Turkey’s lira slides on rate cut expectations

China to take paced monetary easing: Barclays economist
Economic Surprises Have Collapsed in U.S. and Shot Higher in Europe

Source: Evercore ISI, U.S. Global Investors
Emerging European Countries Outpacing European Union

Purchasing Managers’ Index (PMI) for European Union vs. Emerging European Countries

Source: Bloomberg, U.S. Global Investors
European Sentiment Improving

Source: Bloomberg, U.S. Global Investors
Central and Eastern European Countries Growth

Central and Eastern European (CEE) Countries GDP Growth Outperforms

Source: Thomson Reuters Datastream, HSBC, U.S. Global Investors
Central Banks — Easier for Longer

What Does Low Oil Price Mean for the Economy?
Inflationary Effects of a Permanent $15 Retreat in Oil Prices, Impact on Consumer Price Index After One Year

Source: Foresight Investor, U.S. Global Investors
Russia — All the Bad News Priced In?

Capitulation?

Vladimir Putin
## Emerging Europe Cheap vs. Developed Markets

<table>
<thead>
<tr>
<th>Country</th>
<th>Name</th>
<th>P/E Ratio</th>
<th>Dividend Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>STXE 600 € Pr</td>
<td>23.6</td>
<td>3.6%</td>
</tr>
<tr>
<td>USA</td>
<td>S&amp;P 500 INDEX</td>
<td>18.4</td>
<td>2.0%</td>
</tr>
<tr>
<td>Poland</td>
<td>WIG 20</td>
<td>15.5</td>
<td>3.9%</td>
</tr>
<tr>
<td>Romania</td>
<td>BUCHAREST BET INDEX</td>
<td>9.9</td>
<td>3.6%</td>
</tr>
<tr>
<td>Turkey</td>
<td>BIST 100 INDEX</td>
<td>9.6</td>
<td>1.8%</td>
</tr>
<tr>
<td>Russia</td>
<td>MICEX INDEX</td>
<td>9.0</td>
<td>4.1%</td>
</tr>
</tbody>
</table>
Summary of Emerging Europe

- CE3 (Poland, Hungary, Czech Republic) – a play on improving core Europe with better growth profile

- Turkey – still the best long-term secular growth story in the region but under pressure after outperforming last year

- Russia – tactically long and worst is likely over

- Greece – wildcard, but probably improves from here
5 Macro Opportunities for Asia

- Reflationary Policy in China
- Chinese Equities Structurally Attractive
- Compelling Valuation of China H-Shares
- Top Policy Beneficiaries: Financials & Property
- Opportunities in Thailand, Philippines, and Indonesia
Securing a Soft Landing

President Xi Jinping
China Surpasses U.S. — Compare GDP in Absolute Terms vs. GDP on Purchasing Power Parity Valuation

GDP on Purchasing Power Parity Valuation
Current International Dollar (Billions)

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>17,632</td>
</tr>
<tr>
<td>United States</td>
<td>17,416</td>
</tr>
<tr>
<td>India</td>
<td>7,277</td>
</tr>
<tr>
<td>Japan</td>
<td>4,788</td>
</tr>
<tr>
<td>Germany</td>
<td>3,621</td>
</tr>
</tbody>
</table>

Gross Domestic Product in Absolute Terms
In U.S. Dollars (Billions)

<table>
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<tr>
<th>Country</th>
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<tbody>
<tr>
<td>United States</td>
<td>17,416</td>
</tr>
<tr>
<td>China</td>
<td>10,355</td>
</tr>
<tr>
<td>Japan</td>
<td>4,770</td>
</tr>
<tr>
<td>Germany</td>
<td>3,820</td>
</tr>
<tr>
<td>France</td>
<td>2,902</td>
</tr>
</tbody>
</table>

Past performance does not guarantee future results. Source: Knoema, U.S. Global Investors
China’s Capitalization Rate is Low

![Bar chart showing capitalization rates for various countries, with Hong Kong having the highest rate. Source: IMF, Bloomberg, U.S. Global Investors.]

*Hong Kong local registered companies only.*
China’s Household Financial Assets Mix in 2014

- Banking deposits: 54%
- Bank wealth management product: 12%
- Equity: 13%
- Insurance: 4%
- Funds: 4%
- Trust: 4%
- Other: 9%

Source: Credit Suisse, U.S. Global Investors
Chinese Equity Exposure Much Lower Than U.S. or Japan

Source: Federal Reserve, Bank of Japan, WIND, Credit Suisse, U.S. Global Investors
Direct Financing Has Huge Room for Growth in China

*Adjusted for commercial banks’ corporate bond holdings. Source: HSBC, CSRC, U.S. Global Investors
Sector and Industry Growth Opportunities

Note: Refers to the total assets of listed subsidiaries over the total assets of the parent group.

Source: HSBC, SASAC, WIND, U.S. Global Investors
China A-Shares Forward Price-to-Earnings Ratio Only 10x

Source: Bloomberg, U.S. Global Investors
China H-Shares Forward Price-to-Earnings Ratio Only 7x
China A/H-Shares Forward PE vs G7-E7 Peer Markets

As of February 13, 2015

Source: Bloomberg, U.S. Global Investors
China Real One-Year Lending Rate

Source: Bloomberg, Jefferies, U.S. Global Investors

Note - Real one-year lending rate percentage = one-year base lending rate percentage minus CPI percentage year-over-year.

Hefei, China’s Anhui province
MSCI China Industries’ Interest Rate Sensitivity

Sector Returns’ Correlation with Lower Real Interest Rates (Monthly data, past 10 years)

Source: Factset, MSCI, NBS, Bloomberg, U.S. Global Investors
Dividend History of China’s “Big Four” State Owned Banks (H-Shares)

Source: Thomson Reuters Datastream, HSBC, U.S. Global Investors
Chinese Banks Remain Most Underowned Despite Recent Rally
Chinese Insurers to Benefit from Low Penetration and A-Shares Market Recovery
Chinese Property Sector Should Outperform on Falling Interest Rates
MSCI Asia ex-Japan — Value Outperformance During the U.S. QE Periods

Note: Value has outperformed in Asia ex-Japan in each of the past four US QE periods.
Source: Factset, CLSA, U.S. Global Investors
MSCI Asia ex-Japan Sectors — Average Next Three Months Outperformance After QE Announcement

OFP is calculated based on the performance after US QE2, US QE3 and ECB’s LTRO was announced. Performance is based on total return in US-dollar.

Source: Factset, CLSA, U.S. Global Investors
MSCI Asia ex-Japan Markets — Average Next Three Months Outperformance After QE Announcement

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Source: Factset, CLSA, U.S. Global Investors
Philippines BPO Revenues and Remittances

In Billions of U.S. Dollars

- BPO Revenues/Remittances (Right axis)
- Overseas Remittances (Left axis)
- BPO Revenues (Left axis)

Source: CLSA, IBPAP, BSP, U.S. Global Investors
Philippines Current Account as a Percent of Nominal GDP

Source: CLSA, CEIC Data, BSP, U.S. Global Investors
Philippines Annualized GDP Per Capita
Indonesia’s Fuel Subsidy Cut Could Accelerate Infrastructure Investment Cycle
Happy Chinese New Year!
Disclosures

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. Distributed by U.S. Global Brokerage, Inc.

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

The Citigroup Economic Surprise Indices are objective and quantitative measures of economic news. They are defined as weighted historical standard deviations of data surprises (actual releases vs Bloomberg survey median). The Purchasing Manager’s Index is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. The MICEX Index is the real-time cap-weighted Russian composite index. It comprises 30 most liquid stocks of Russian largest and most developed companies from 10 main economy sectors. The MICEX Index was launched on September 22, 1997, base value 100. The MICEX Index is calculated and disseminated by the MICEX Stock Exchange, the main Russian stock exchange.
Disclosures

The Dow Jones STOXX 600 Index is an index of 600 stocks representing large-, mid- and small-capitalization companies in the developed countries of Europe. The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies. The WIG20 Index is a modified capitalization-weighted index of 20 Polish stocks which are listed on the main market. The Bucharest Exchange Trading Index (BET) is a capitalization weighted index, comprised of the 10 most liquid stocks listed on the Bucharest Stock Exchange. The Istanbul Stock Exchange National 100 Index (XU100) is a capitalization-weighted index composed of National Market companies except investment trusts.

The Shanghai Composite Index (SSE) is an index of all stocks that trade on the Shanghai Stock Exchange. The Hang Seng China Enterprises Index is a capitalization-weighted index comprised of state-owned Chinese companies (H-Shares) listed on the Hong Kong Stock Exchange and included in HSMLCI index (Hang Seng Mainland Composite Index). 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 MSCI China Free Index is a capitalization weighted index that monitors the performance of stocks from the country of China.

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. The Hang Seng Composite Index is a market-cap weighted index that covers about 95% of the total market capitalization of companies listed on the Main Board of the Hong Kong Stock Exchange. The MSCI Asia ex-Japan Index is a free float-adjusted, capitalization-weighted index measuring the performance of all stock markets of China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand, India and Pakistan.

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