



# U.S. Global Investors

*Searching for Opportunities, Managing Risk*

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Director of Research

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May 21, 2008

08-283

# Lipper Award Winner



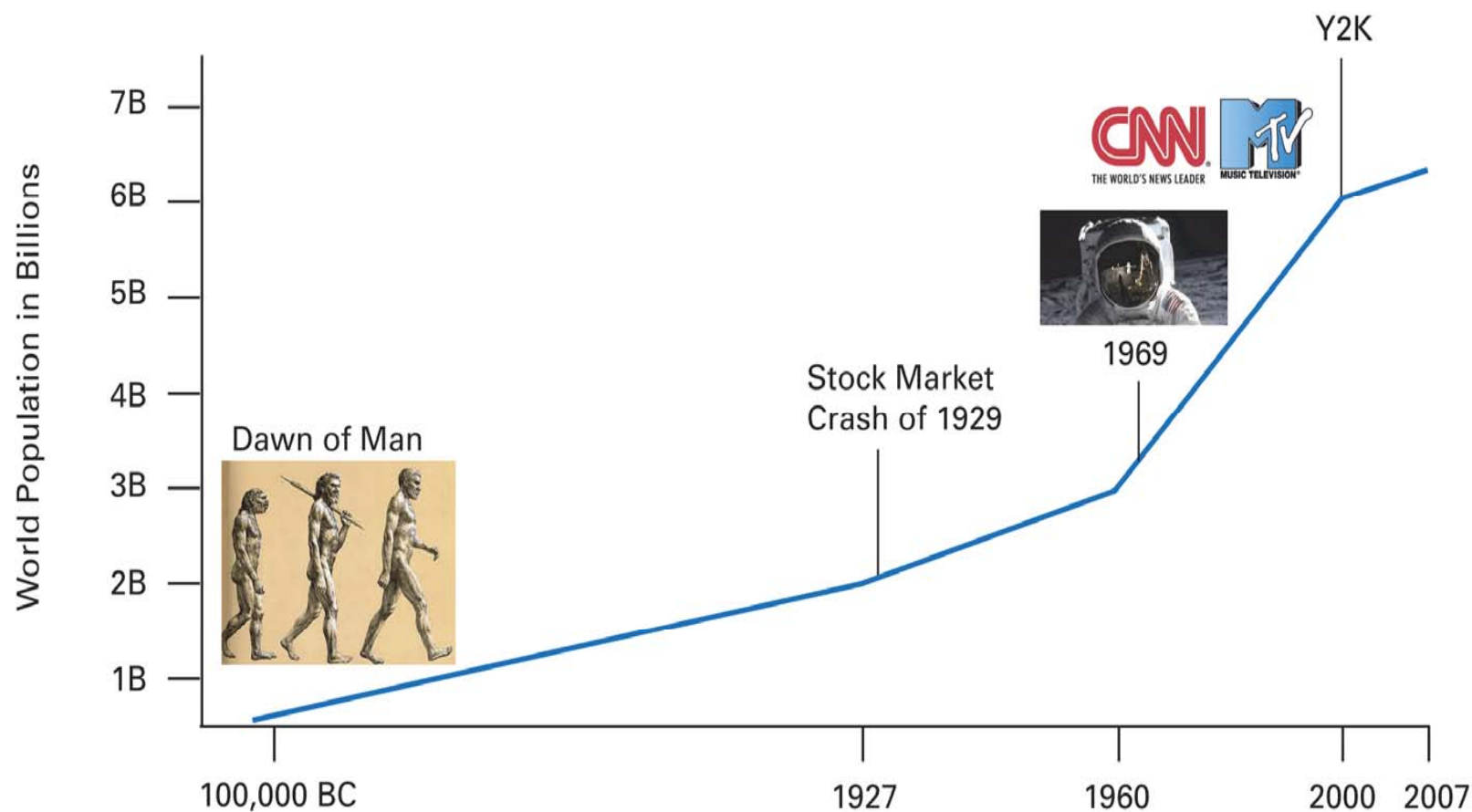
## Global Resources Fund (PSPFX)

Best Natural Resources Fund (out of 75 funds) in consistent return for the 5-year period ended December 31, 2007

The award selection process began with Lipper calculating a Consistent Return score for each fund for the five-year time period as of December 31, 2007. Consistent Return is a quantitative metric that incorporates two characteristics: risk-adjusted return, and the strength of the fund's performance trend. The top-scoring Consistent Return fund within each classification received the awards. Past performance does not guarantee future results.



# 6 Billion People-Tipping Point



# Global Shift Due to Commodities

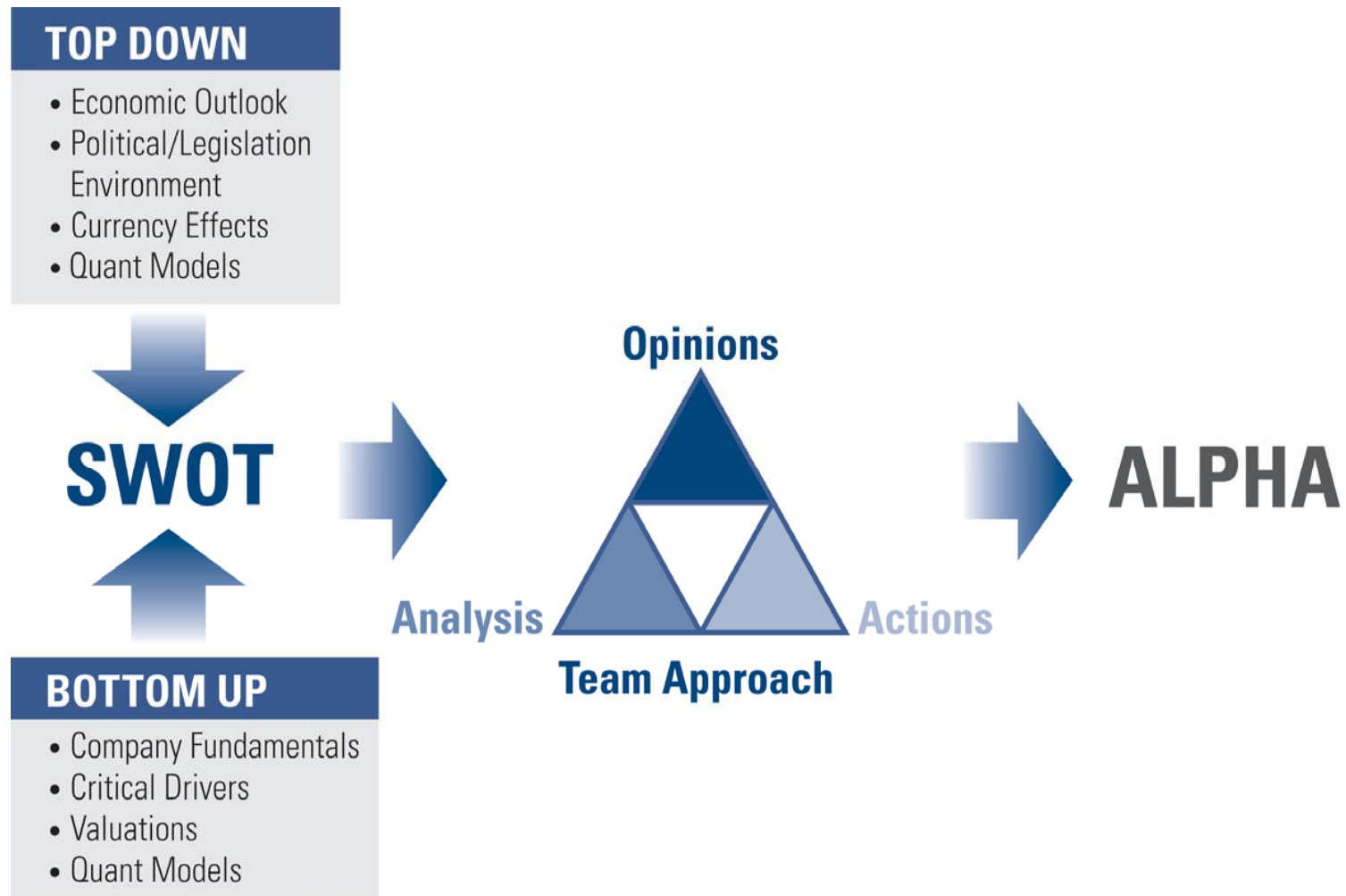
## Government Wealth Accounts



Source: Peterson Institute, Alaska Permanent Fund, Australia Future Fund  
2007 Figures



# Multidisciplinary Focus



\*SWOT analysis (Strength, Weakness, Opportunity, Threat). Alpha is a measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a mutual fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.



# Patterns of Success: Managing Expectations

1. Cycles
2. Stock Screens and Metrics
3. Time Management



# Cycles – Where are we on the...



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



- **Presidential Election Cycle** – 4-Year Cycle



- **Seasonal Cycle** – Commodity and Stock Market Patterns



# Another Perspective on Volatility

## Commodities and the Mean Reversion Principle



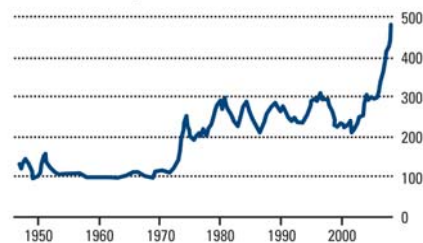


# The Global Resource Squeeze

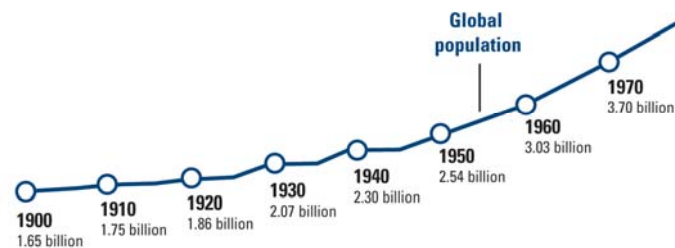
## The Global Resource Squeeze

As the world grows more populous, it is also growing more prosperous. Rising living standards in the developing world have boosted demand for resources, lifting prices. CRB Spot Index of prices for 22 commodities, including oil, steel and hogs:

### CRB Commodity Index



Source: Commodity Research Board

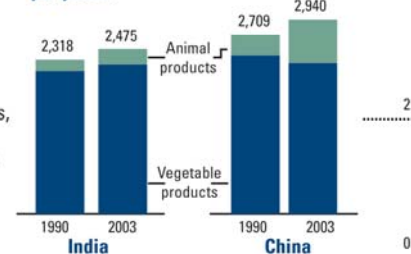


Source: United Nations (population)

### Richer Diets

In many developing nations, more people are adopting high-protein diets richer in meats, taxing supplies of water and arable land.

### Daily calorie consumption per person

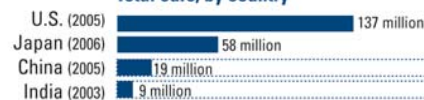


Source: United Nations

### Auto Planet

Car owner rates in China and India are rising, which could add significant new pressure on oil supplies.

### Total cars, by country



Source: International Road Federation, Japan Automobile Manufacturers Association, Japan Statistics Bureau

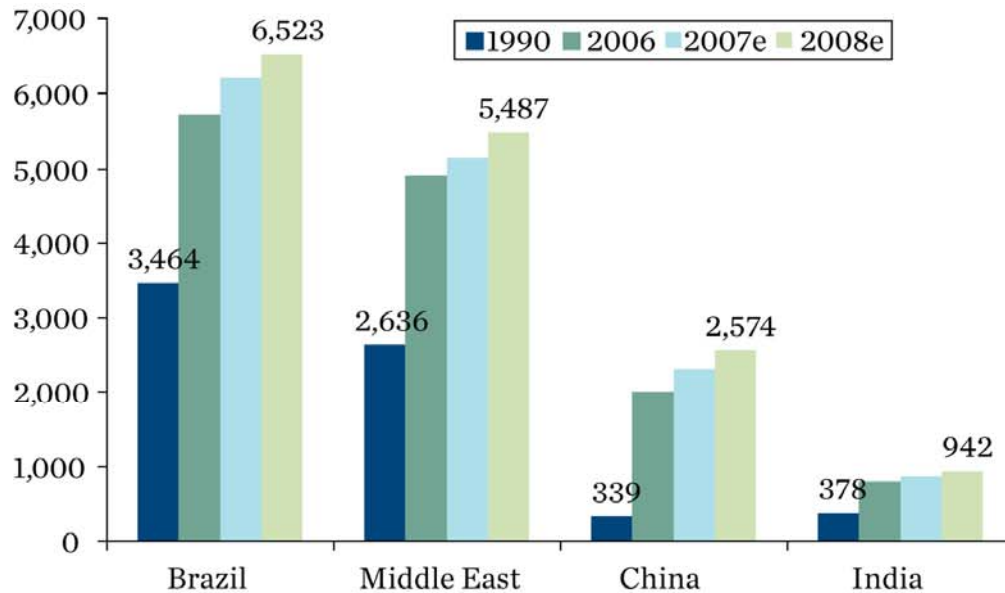
### Number of cars if per-capita ownership rates rose to U.S. levels



# The Industrialization of the Developing World — Significant Room to Grow

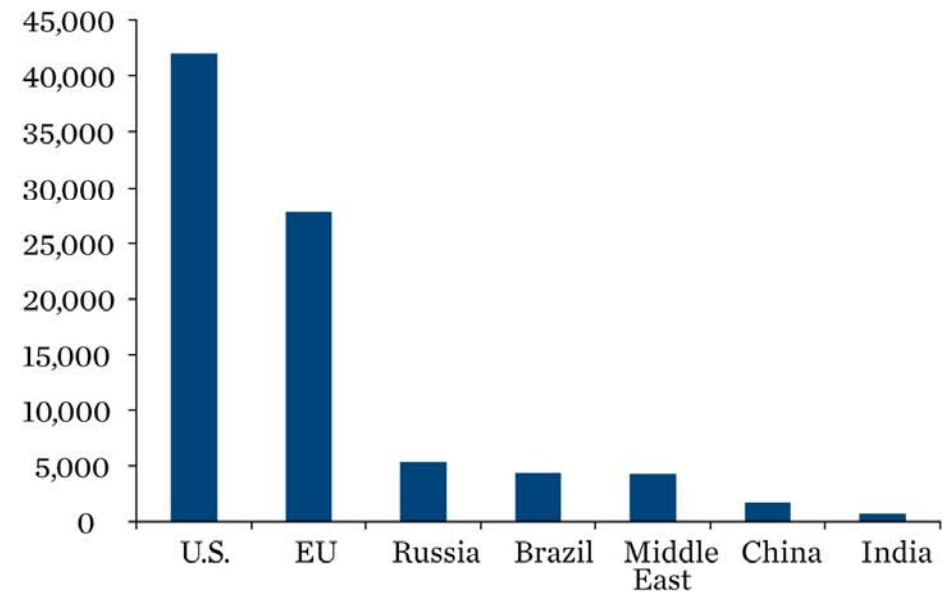
## Surging Purchasing Power in the Developing World

GDP/capita, current USD



## An Income Gap Still Exists

2005 GDP/capita, current USD



# Rapid Urbanization

## Forty percent of the world's population



Source: Stephen Codrington

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



India – 540 million are expected to live in urban areas by 2025

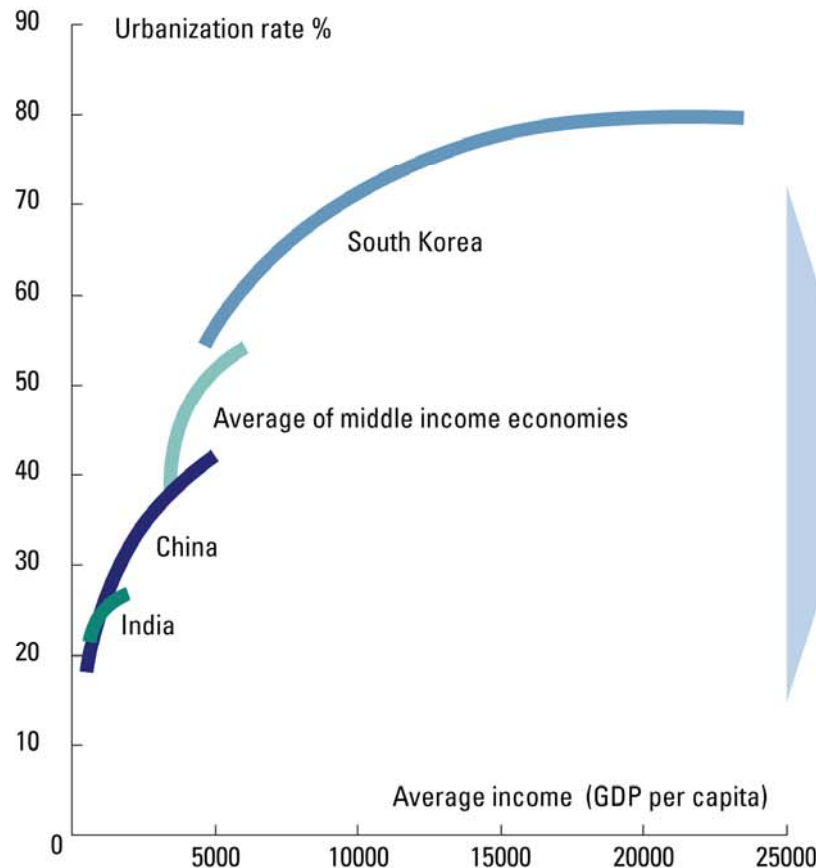
# Demographics is the key



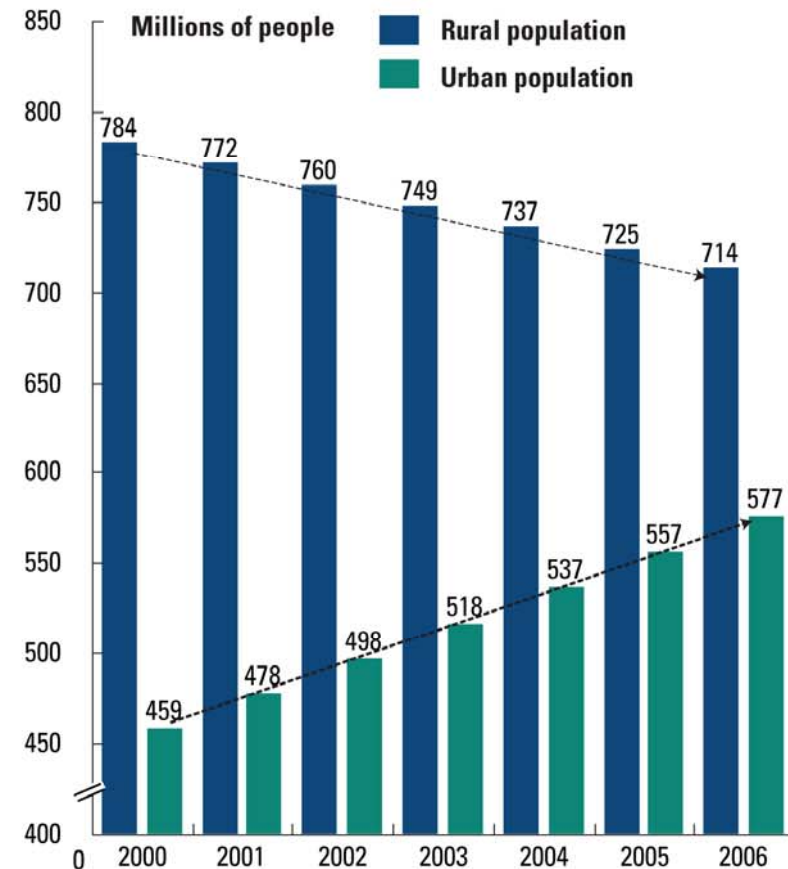
- By 2008, half of global population (>3 billion) is expected to live in urban areas
- Next year, projected urban population will be larger than the entire world population in 1965
- Beijing population grew from 12.8 million to nearly 16 million in the past decade

# The Scale of Currently Urbanizing Developing Countries is Unprecedented

**Urbanization curves**



**Chinese population**

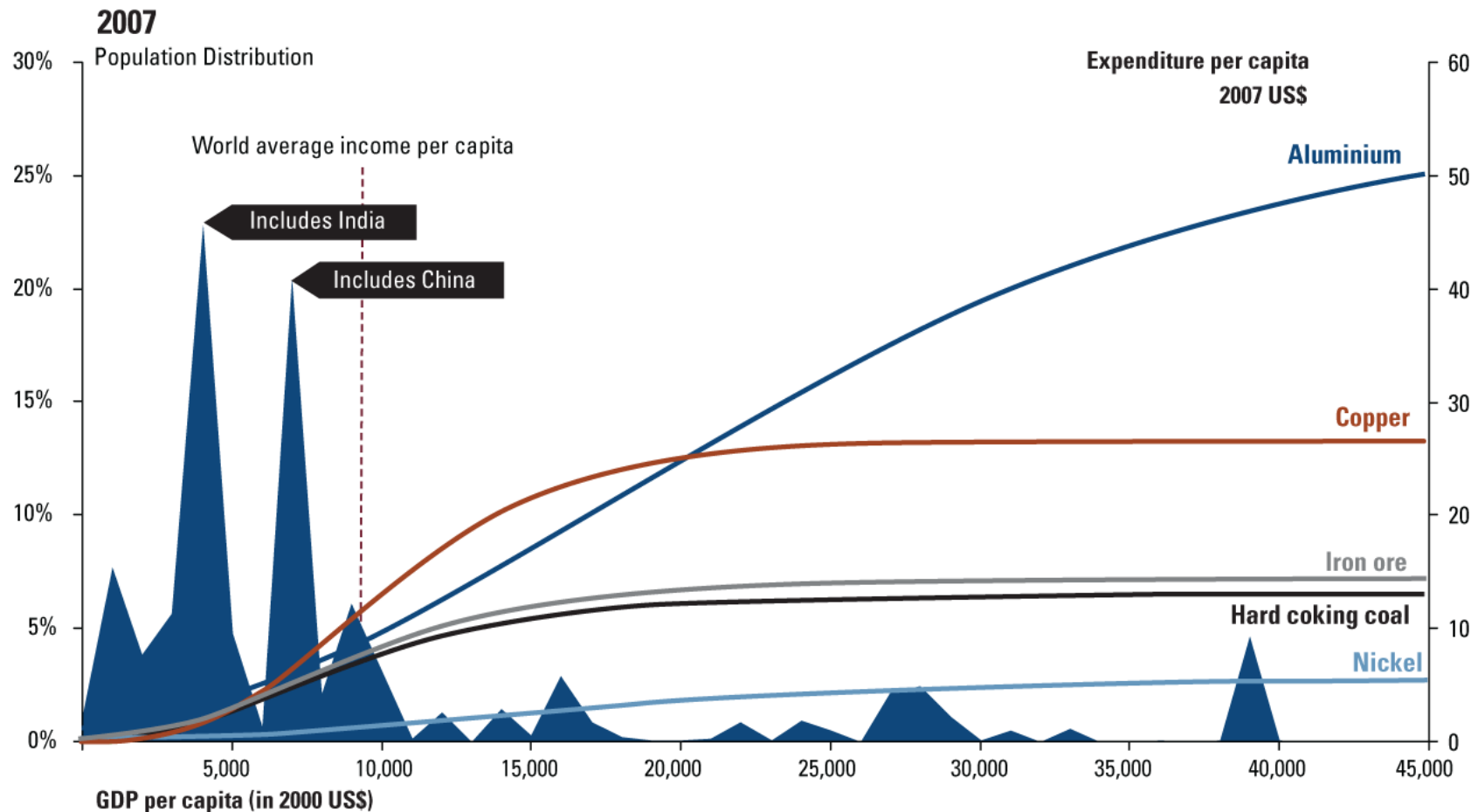


Source: World Bank. Note income data includes re-estimation of purchasing power parity exchange rates.





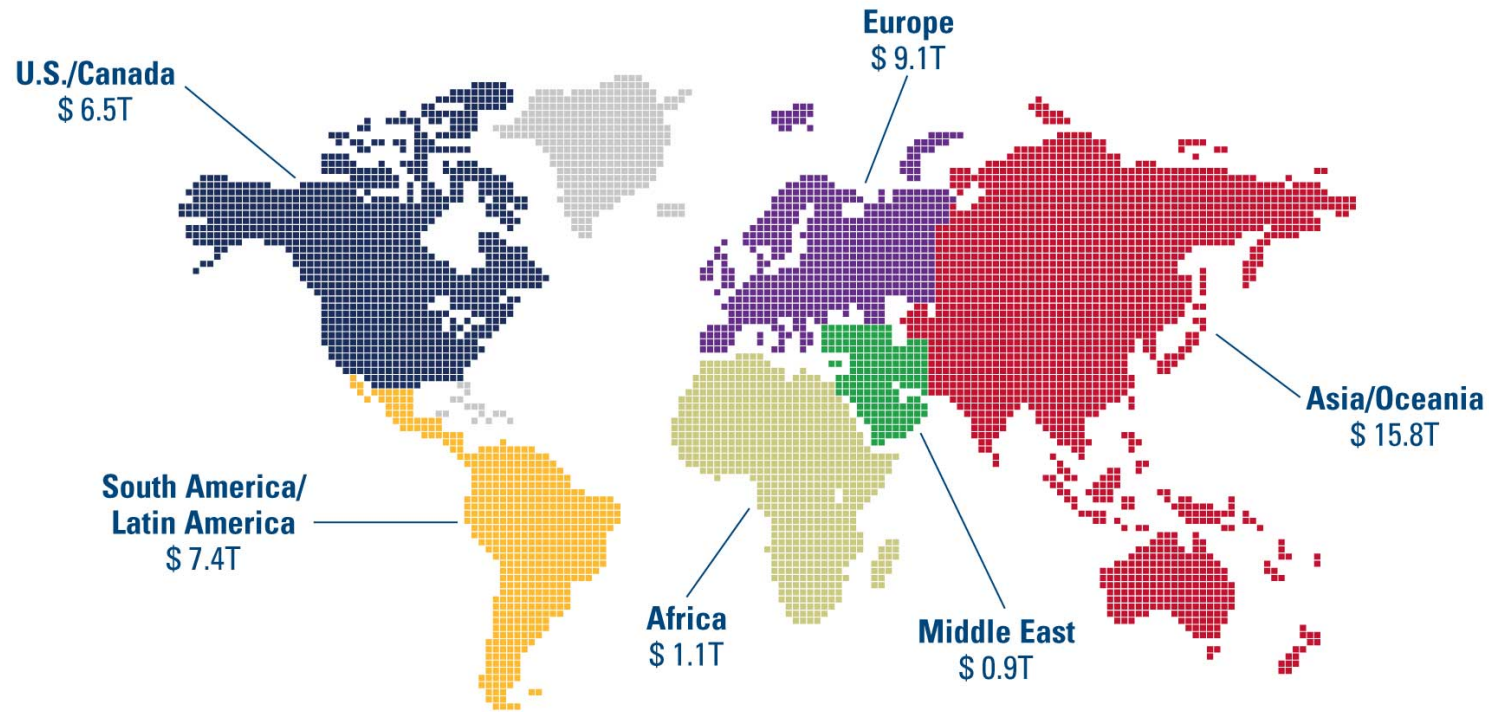
# Which Implies Large Increases in Resource Intensity as These Countries Develop from 2007



Source: Global Insight for population distribution; Rio Tinto estimates for commodity expenditure profiles.  
 Note: Expenditure profiles are based on Rio Tinto estimates of global income and consumption relationships and average real terms prices between 1990-2006. Iron ore and hard coking coal expenditure calculated based on crude steel demand projections, assuming all met by blast furnace production at historic average export prices.



# Total Projected Cumulative Infrastructure Spending 2005-2030: \$41 Trillion



Water  
\$ 22.6T

Power  
\$ 9.0T

Road and Rail  
\$ 7.8T

Air/Seaports  
\$ 1.6T

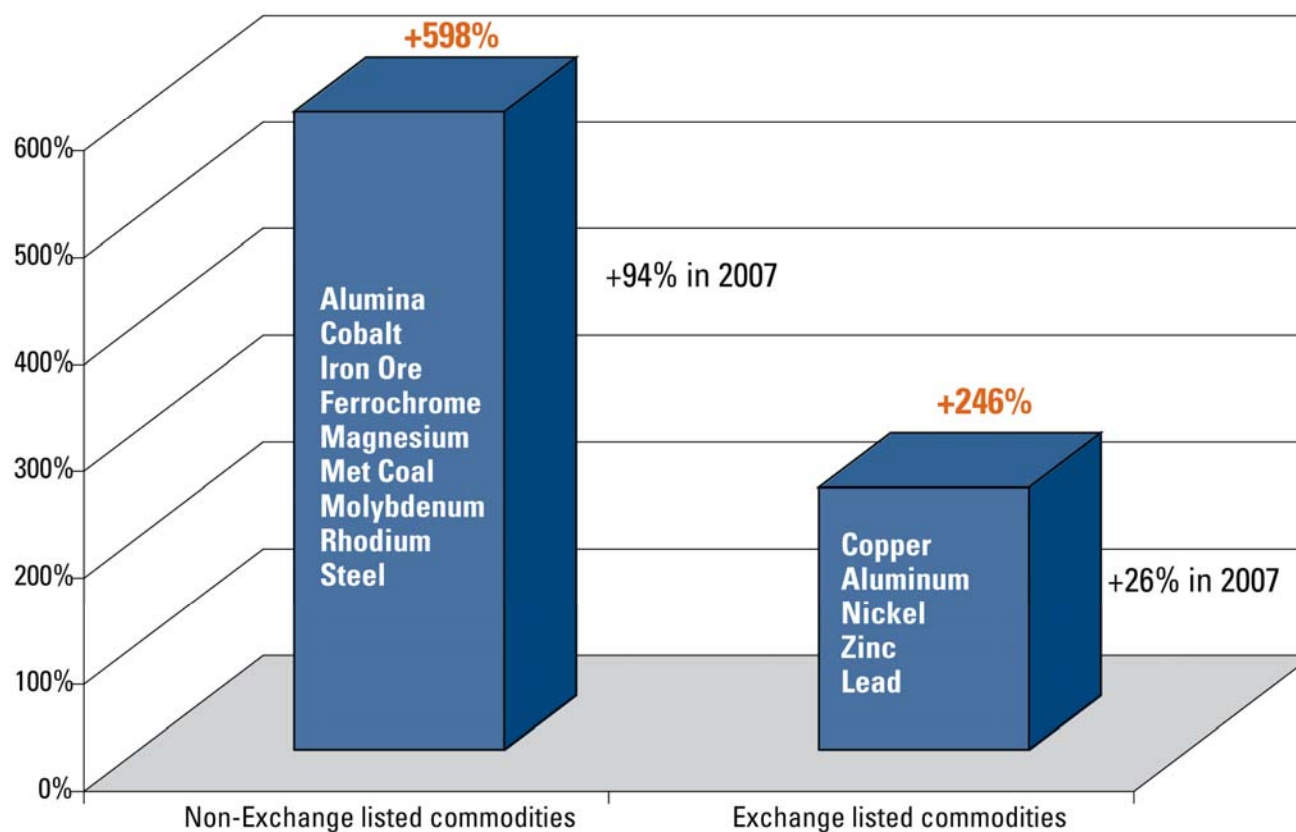
Source: Booz Allen Hamilton, Global Infrastructure Partners, World Energy Outlook, Organisation for Economic Co-operation and Development (OECD). Boeing, Drewry Shipping Consultants, U.S. Department of Transportation



# Physical vs Financial Demand

## Non-exchange Traded Metals versus Listed Base Metals

January 2002 – Early 2008



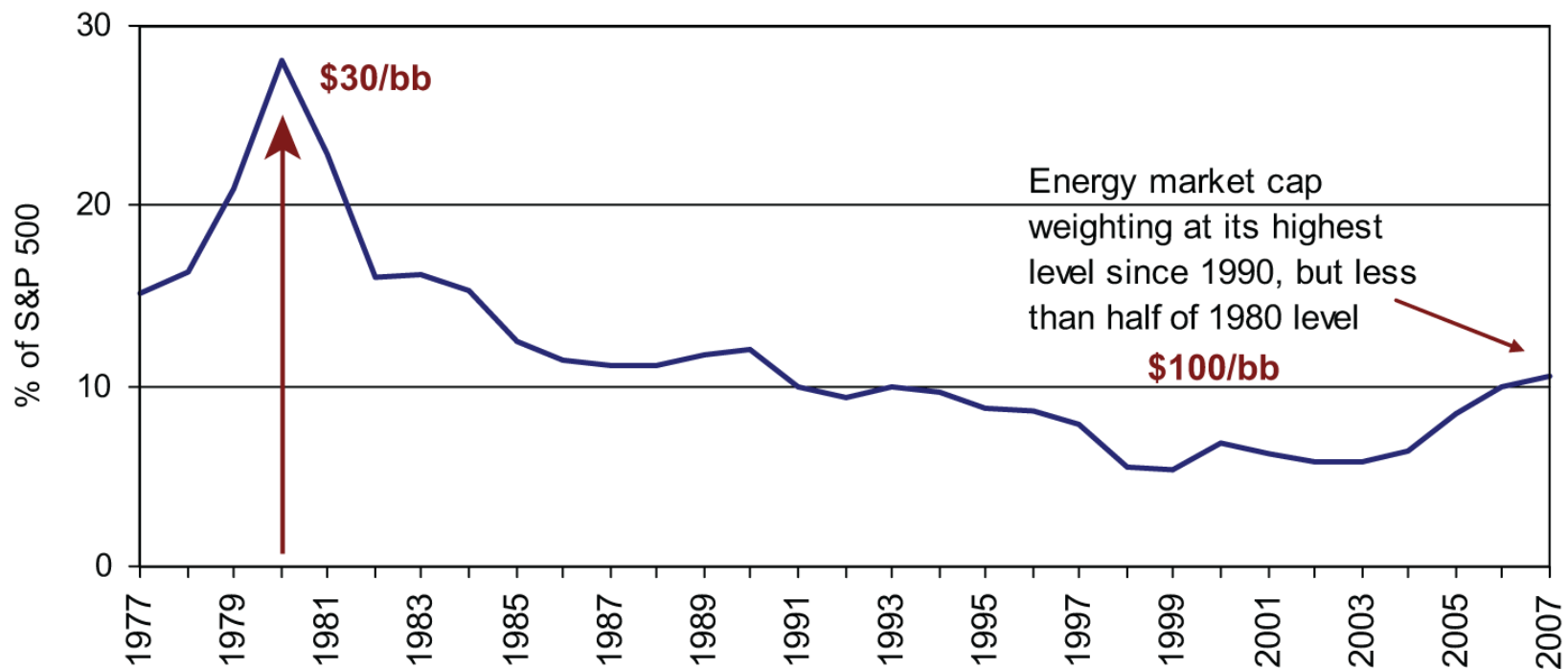
Source: Lehman Brothers





# Energy Still Underweight

## S&P 500 Energy Weightings: Unchanged in 10 Years



Source: S&P, Barra

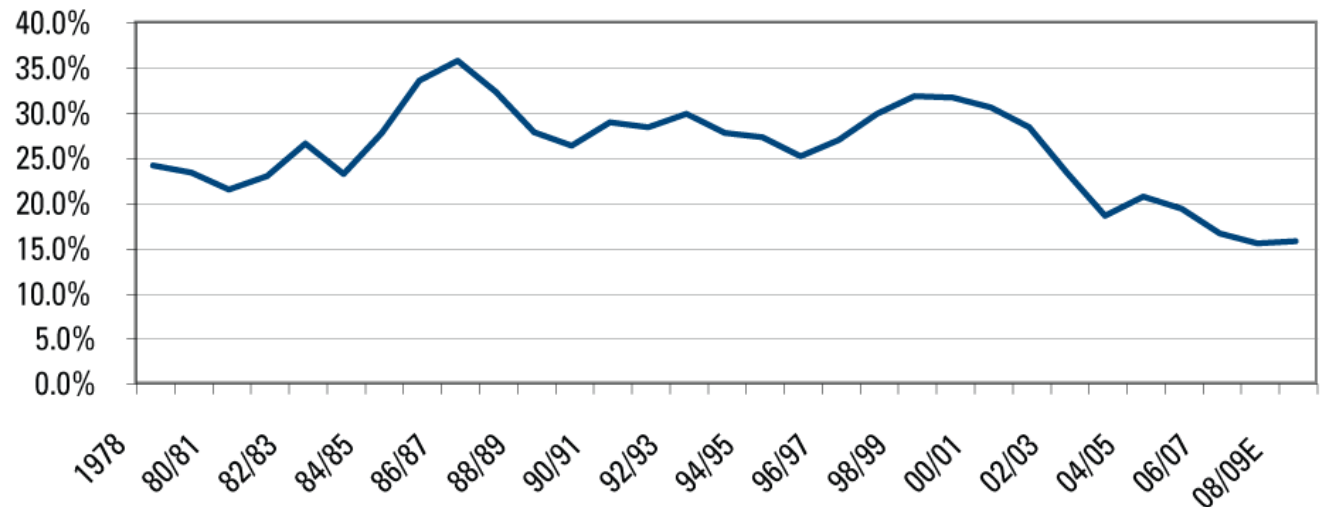
*Energy Stocks are cheap relative to prior cycles*



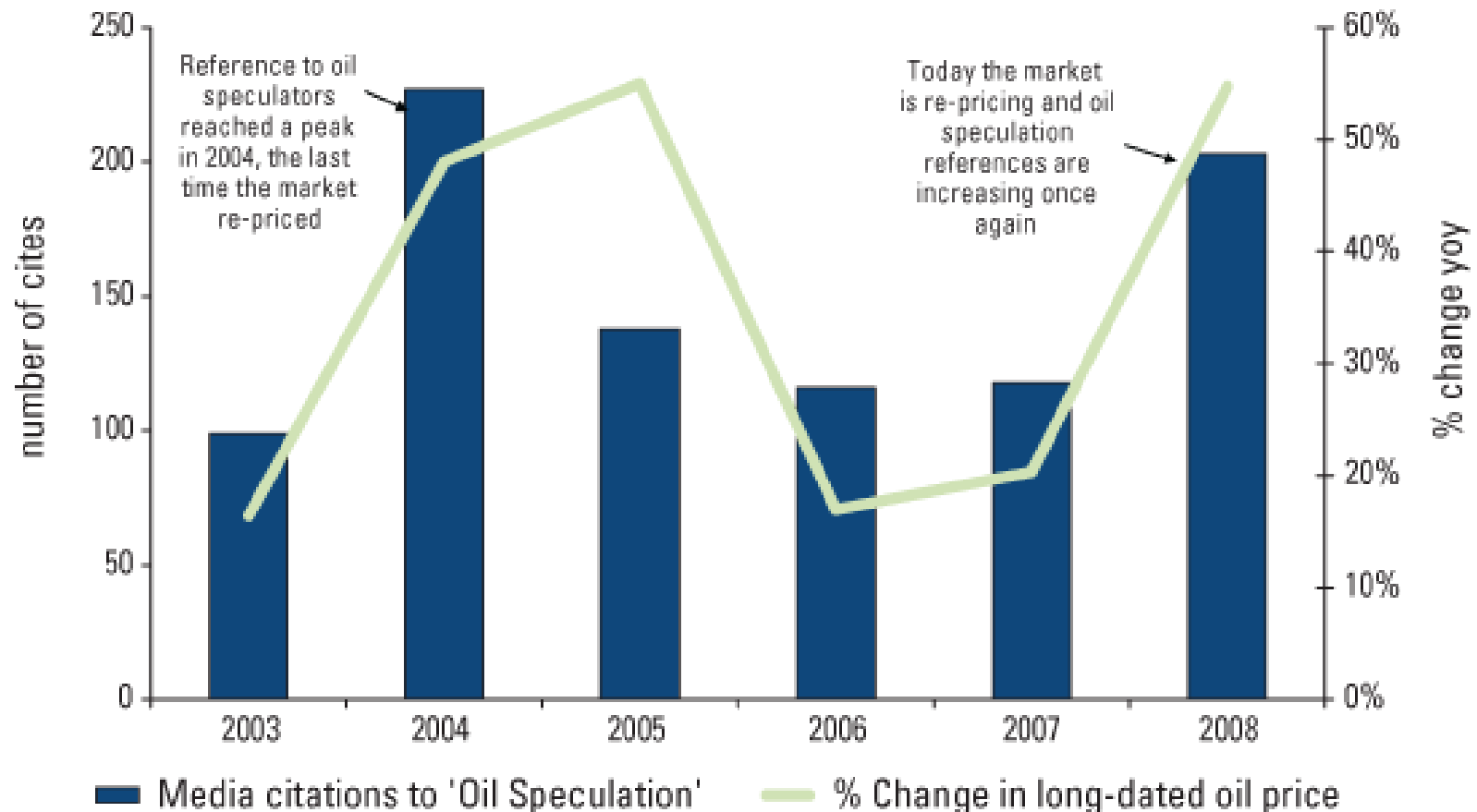
# Global Grain Consumption



**% of Annual Consumption in Inventory  
for Wheat, Coarse Grains and Rice**



# Once Again Speculators are the Focus of Attention



# What's Driving Energy?

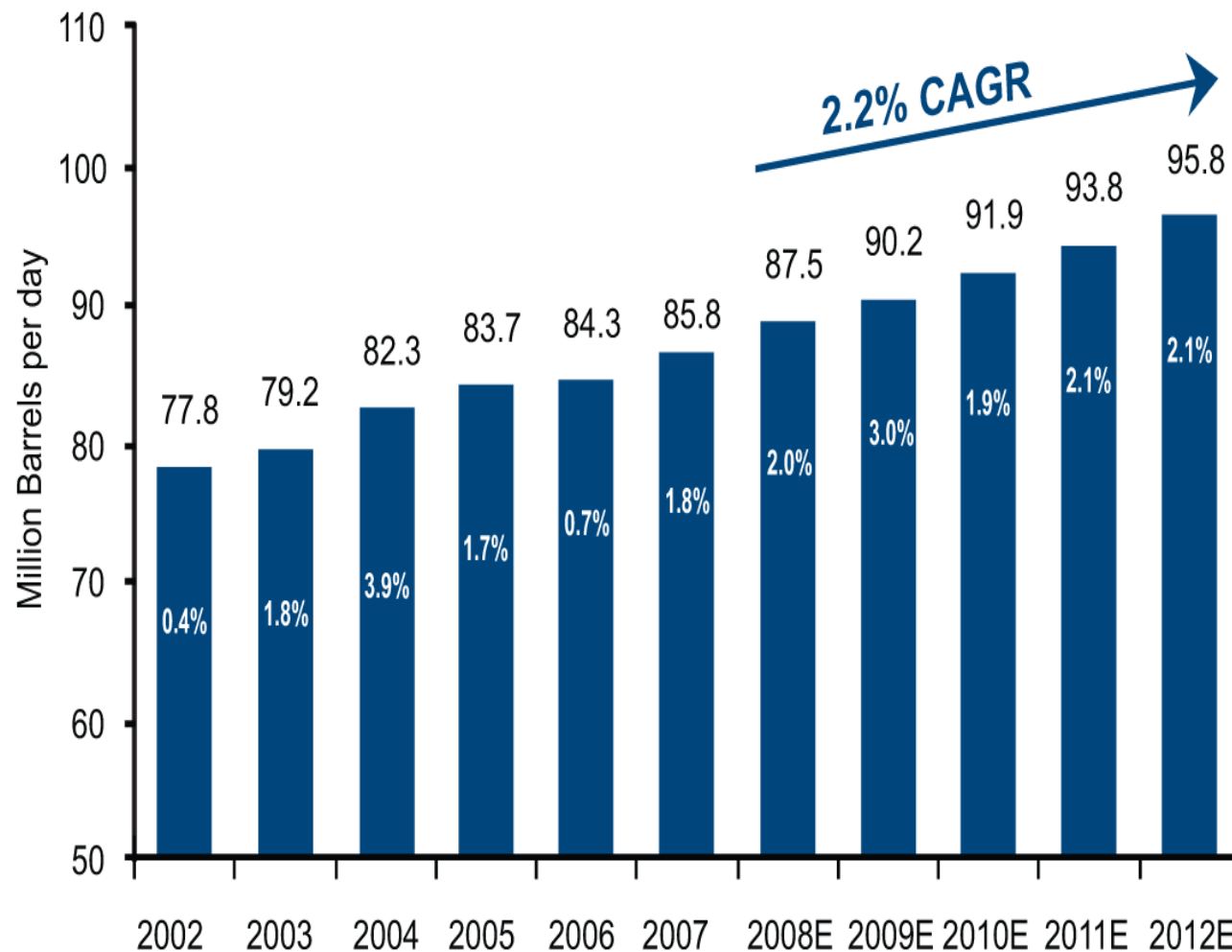
**We have a unique situation where all the critical drivers for oil are pointing in the same direction.**

| Cause                  | ➤ | Effect  | ➤ | Possible Ramifications                     |   |                   |
|------------------------|---|---|---|--|---|-------------------|
| Emerging Economies     | ➤ | Rising Oil Consumption                        | ➤ | Competition for Oil Resources              | ➤ | Higher Oil Prices |
| Low Oil Prices in 90's | ➤ | Cuts in Exploration                           | ➤ | Falling Production/Reserves                | ➤ | Higher Oil Prices |
| OPEC                   | ➤ | Gov'ts Depend on Oil Income                   | ➤ | Cartel Restricts Supply                    | ➤ | Higher Oil Prices |
| Geopolitical           | ➤ | Disruption/Threat of Disruption of Production | ➤ | Lower Global Spare Capacity                | ➤ | Higher Oil Prices |
| Green Movement         | ➤ | Higher Barriers to Entry - More Costly        | ➤ | Limited Drilling Access and New Refineries | ➤ | Higher Oil Prices |
| Peak Oil Theory        | ➤ | Declining Oil Production                      | ➤ | Less Supply                                | ➤ | Higher Oil Prices |

Source: U.S. Global Research



# Demand-Led Rally!



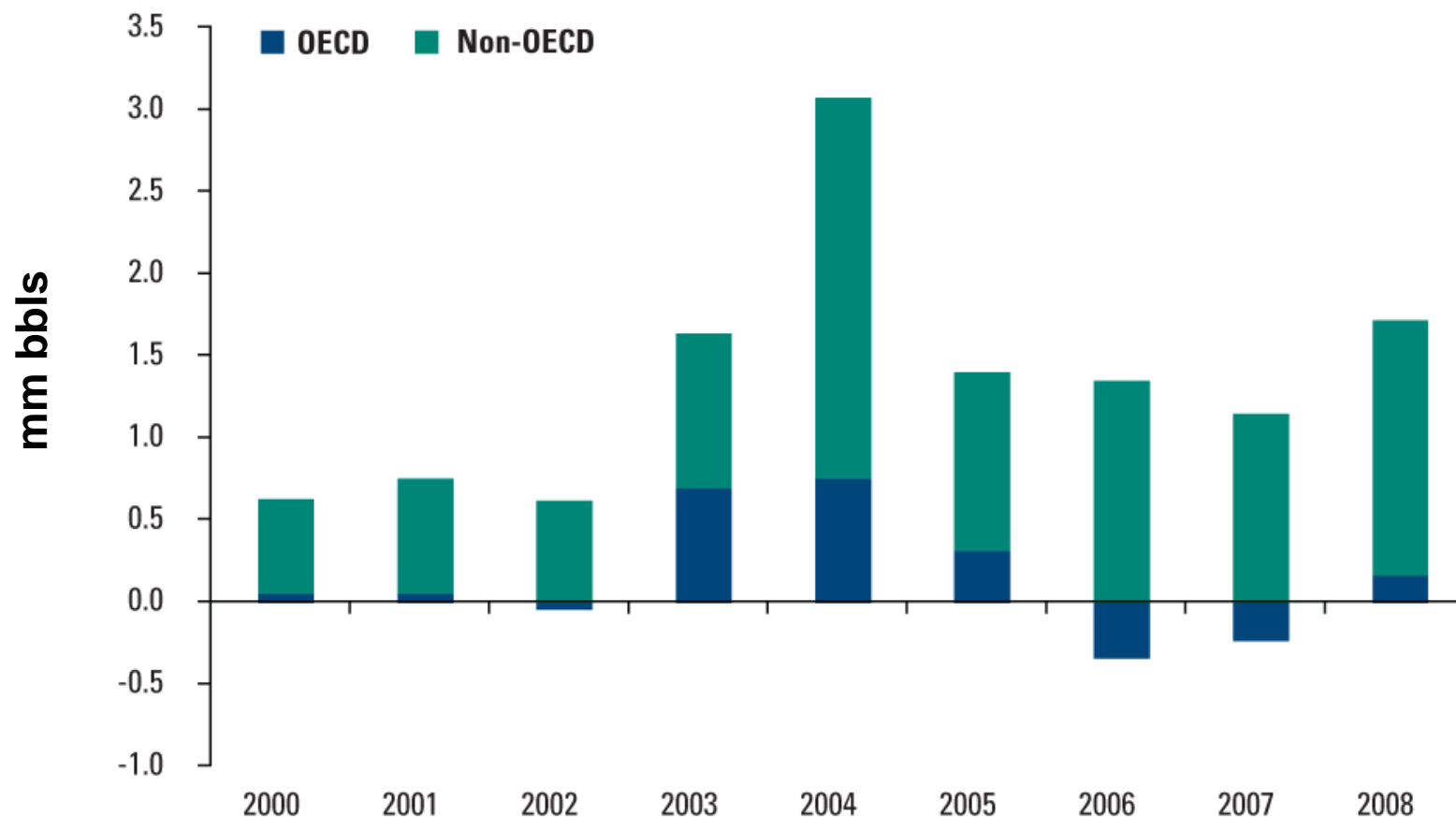
***Will require \$20 trillion further investment to meet demand***

Source: International Energy Agency



# Despite OECD Slowing, Developing World Still Robust

## Bifurcation in Oil Consumption



Source: International Energy Agency (IEA), International Monetary Fund (IMF), Morgan Stanley Commodity Research

# Super Shift – Energy

## Oil Consumption and Industrialization, 1900 to present

Oil Consumption  
per capita:

1 to 25



1 to 16



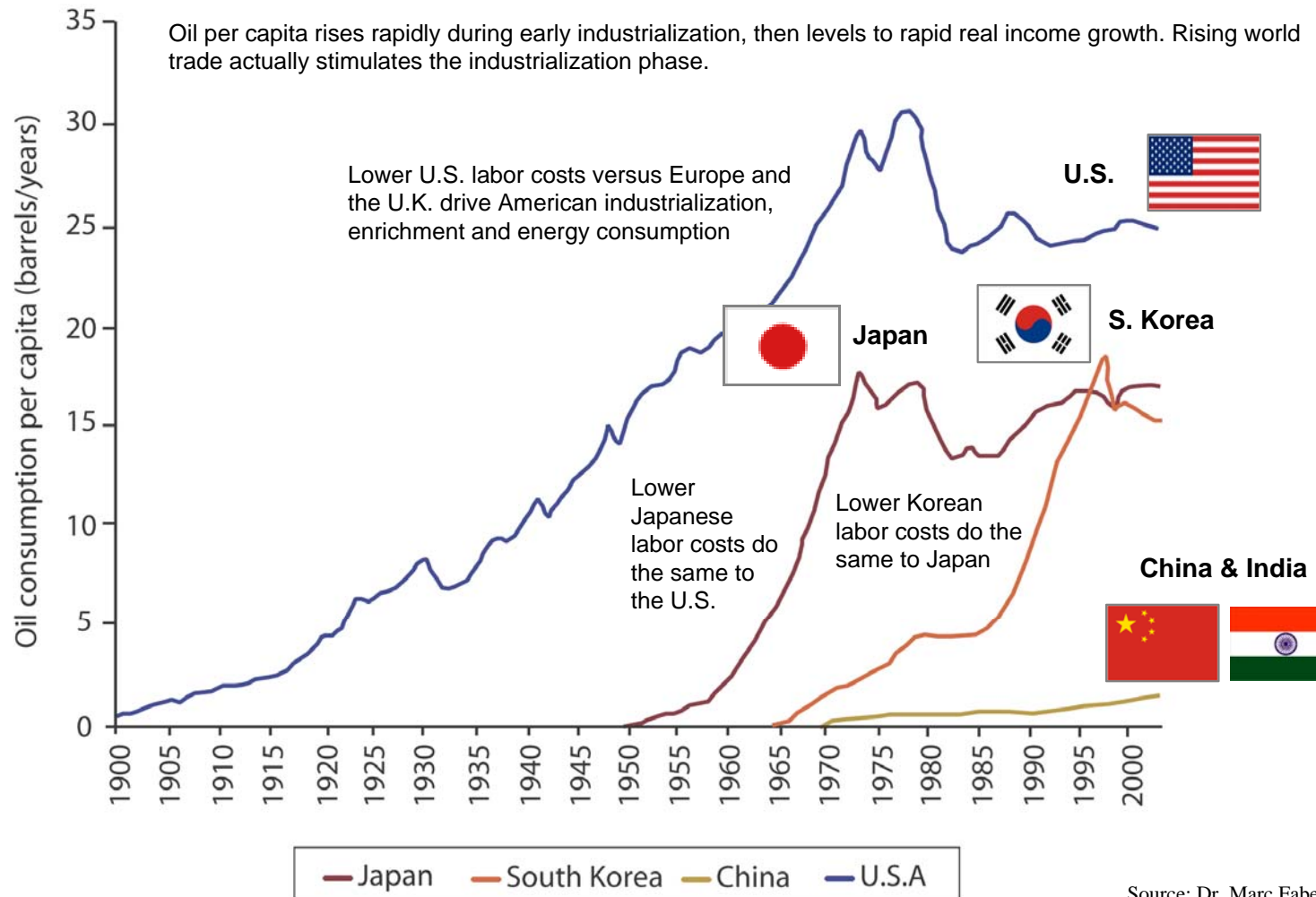
1 to 15



1 to 2



0.9



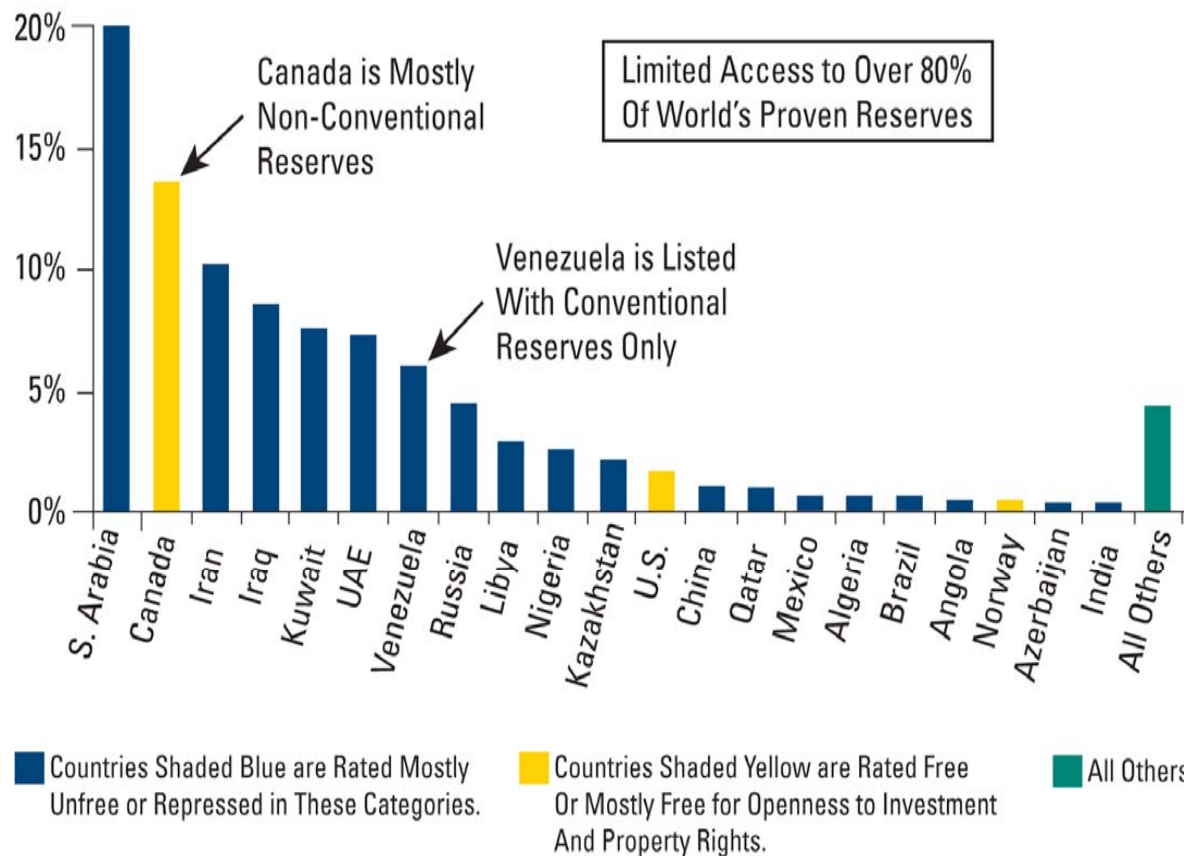
Source: Dr. Marc Faber



# Limited Access to Global Reserves

## Share of Global Proven Oil Reserves

(Source: Oil & Gas Journal)



Source: Heritage Foundation 2007 Index of Economic Freedom.

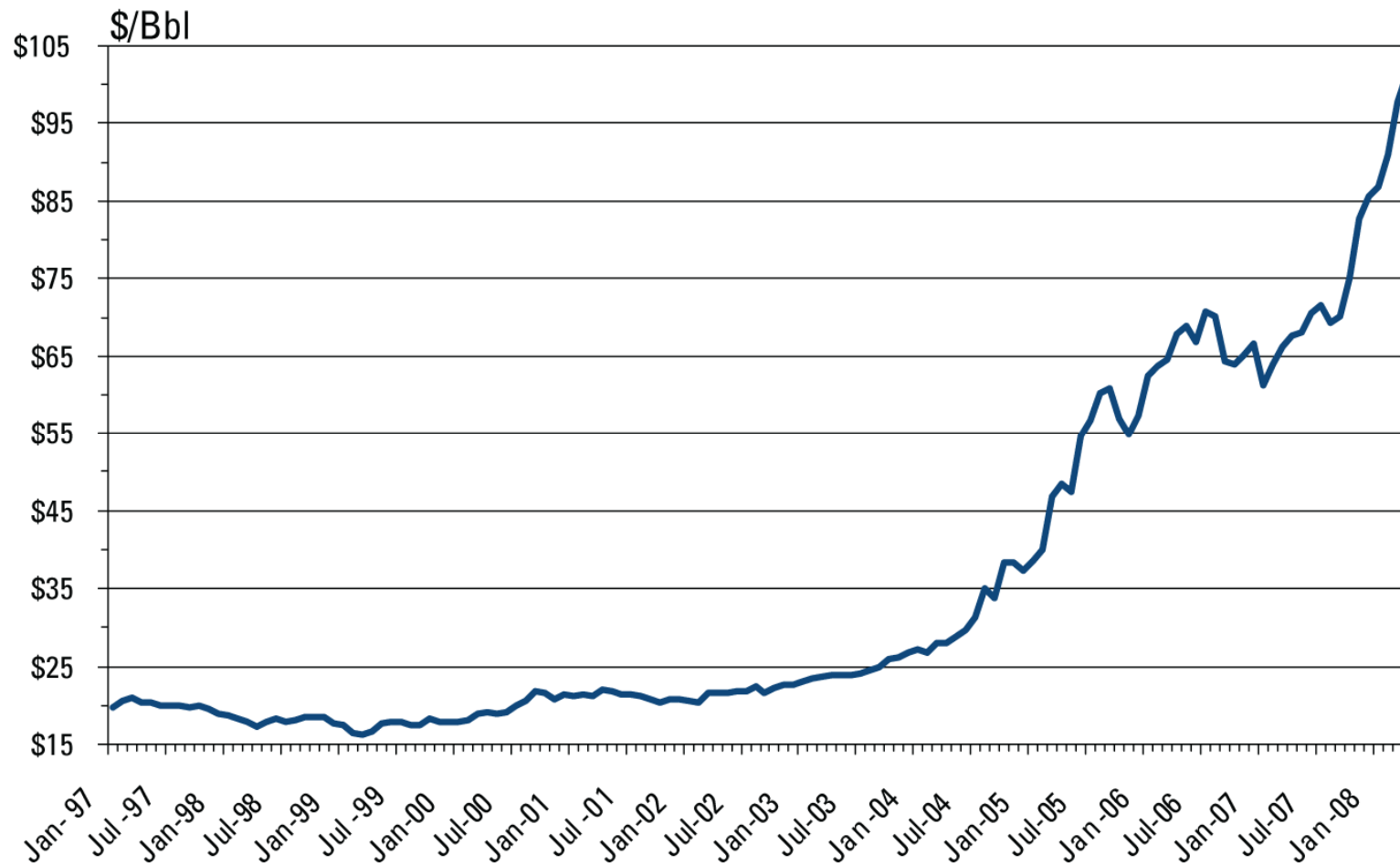
*...Is "Peak Oil" a function of Geology or Geopolitics?*

Source: PIRA, 2007



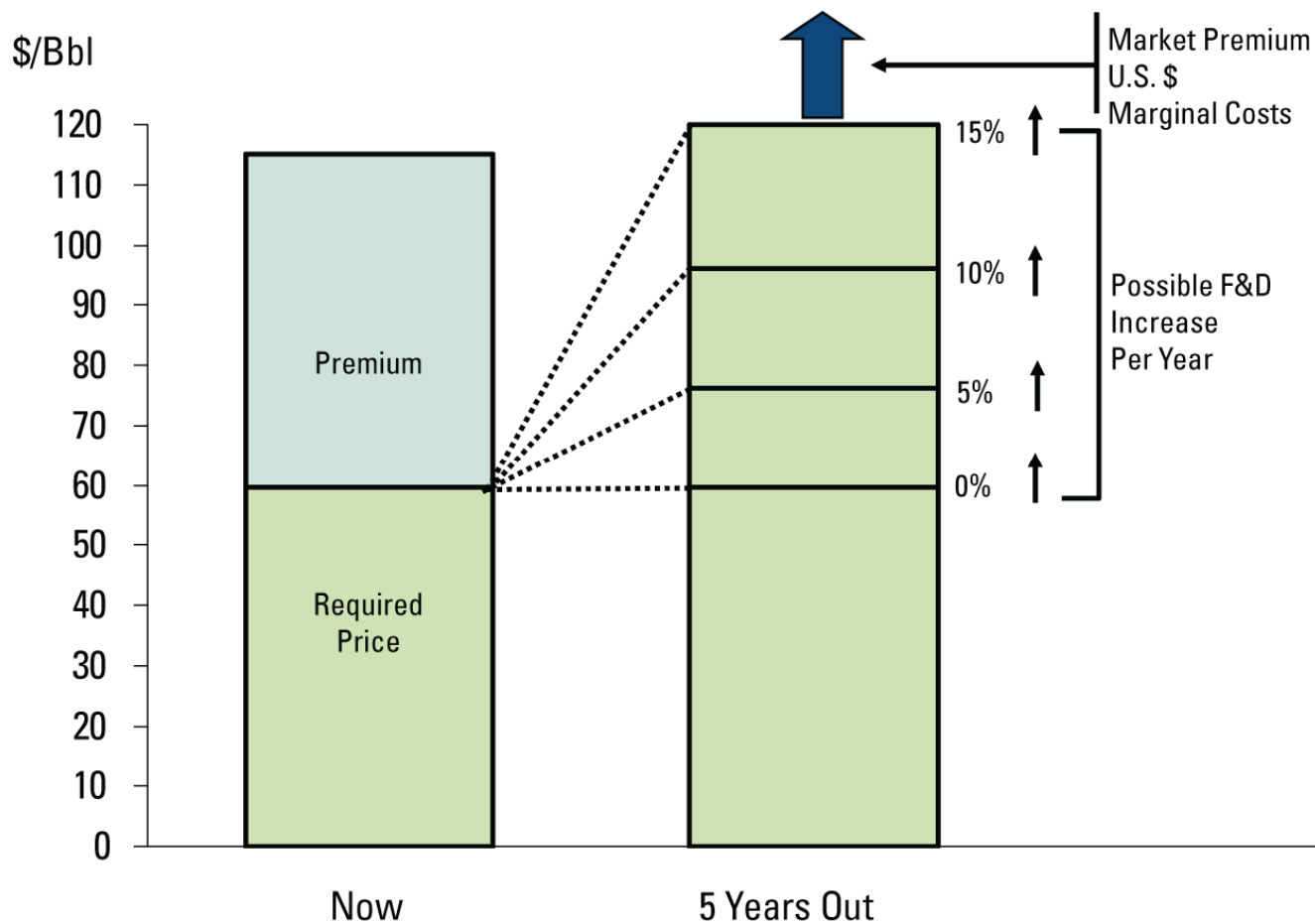


# Five-Year Deferred Price Anchors the Market

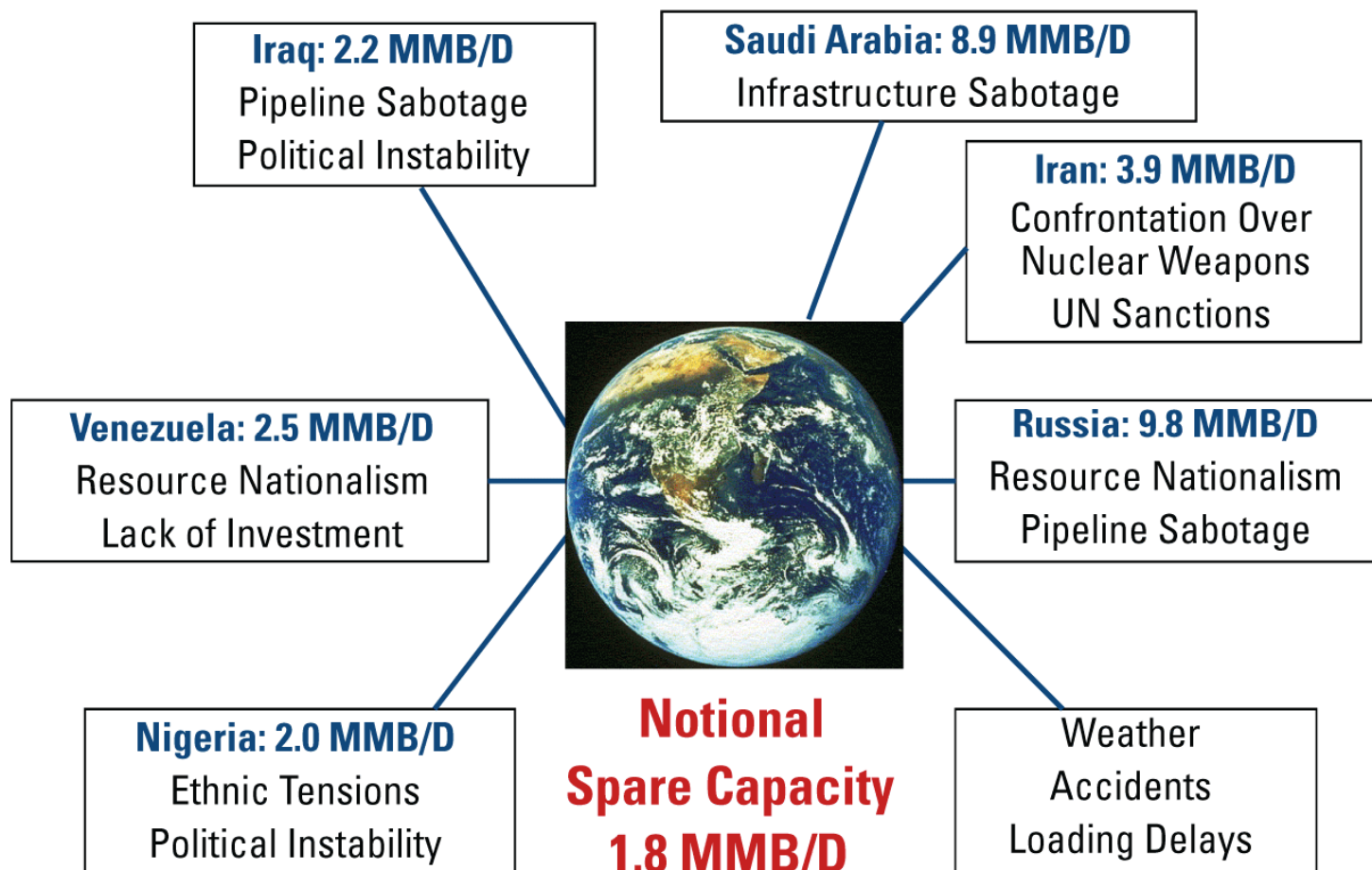


Source: PIRA

# Rising F&D Costs Support Five-Year Deferred Oil Prices

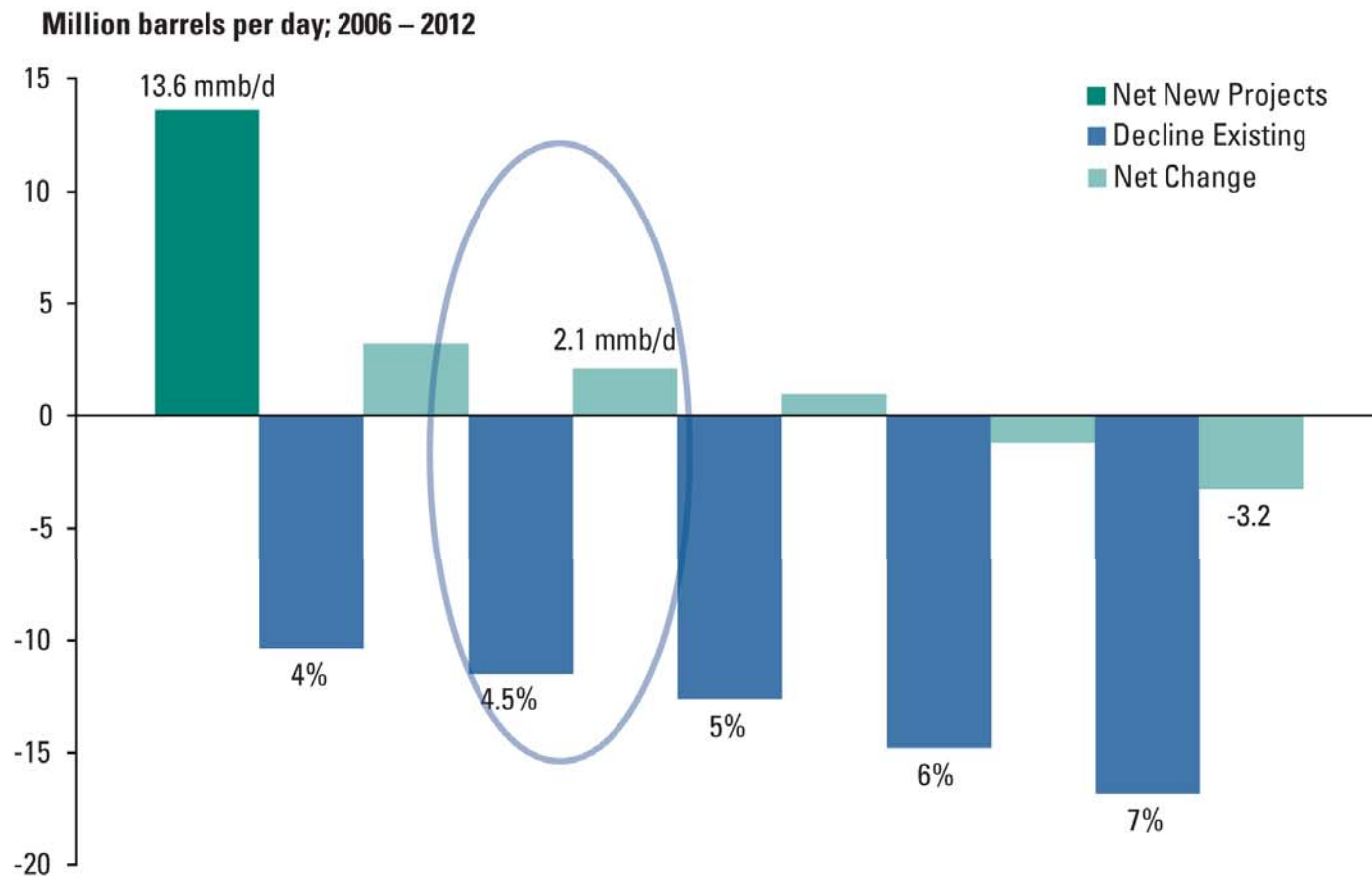


# Major Output Risks 2Q'08

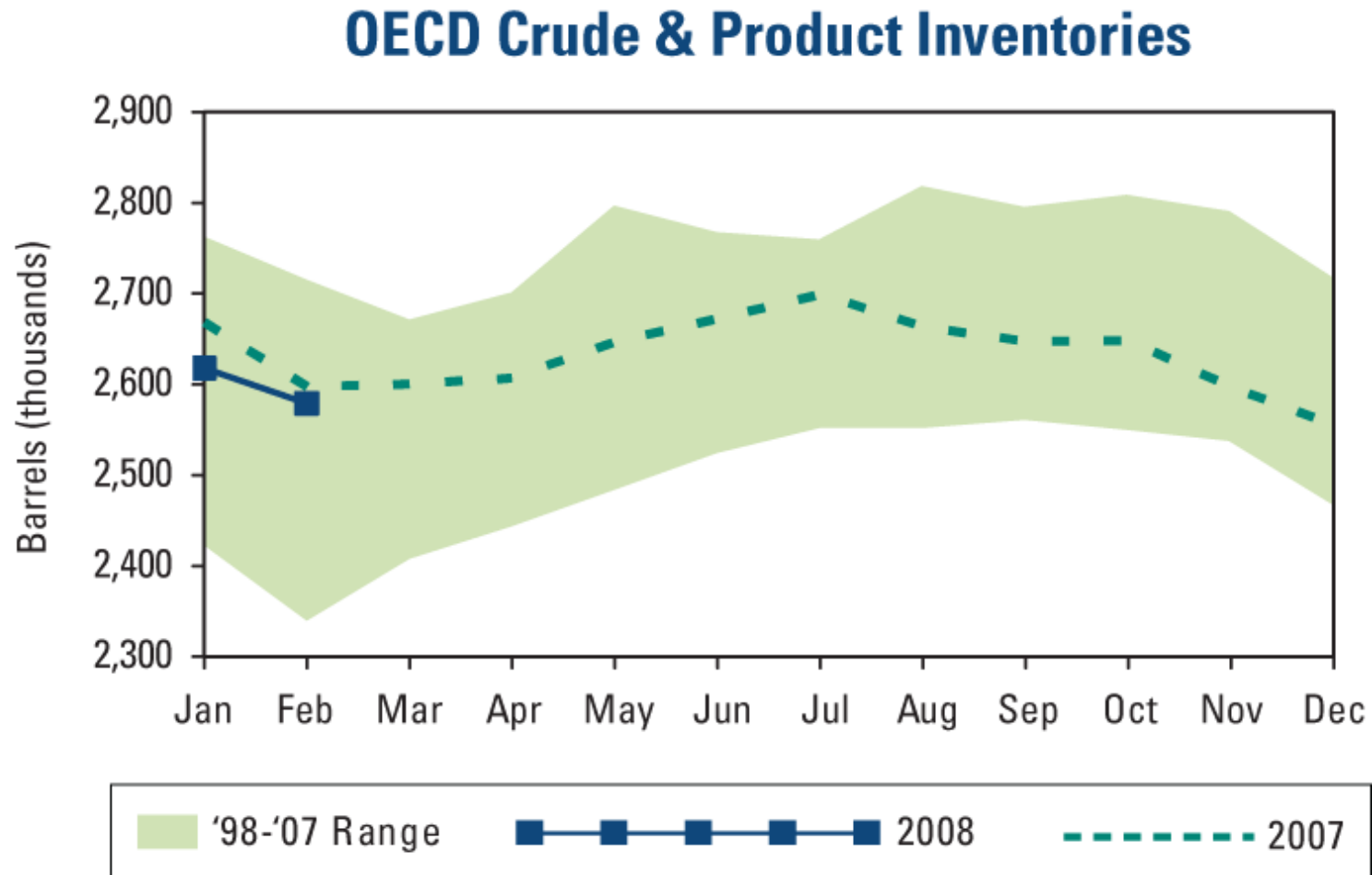


# The IEA Estimates that 13.6 Million b/d of New Capacity Will Be Added Through 2012

However, after accounting for declines at existing fields, production will be higher by only 2.1 mmb/d

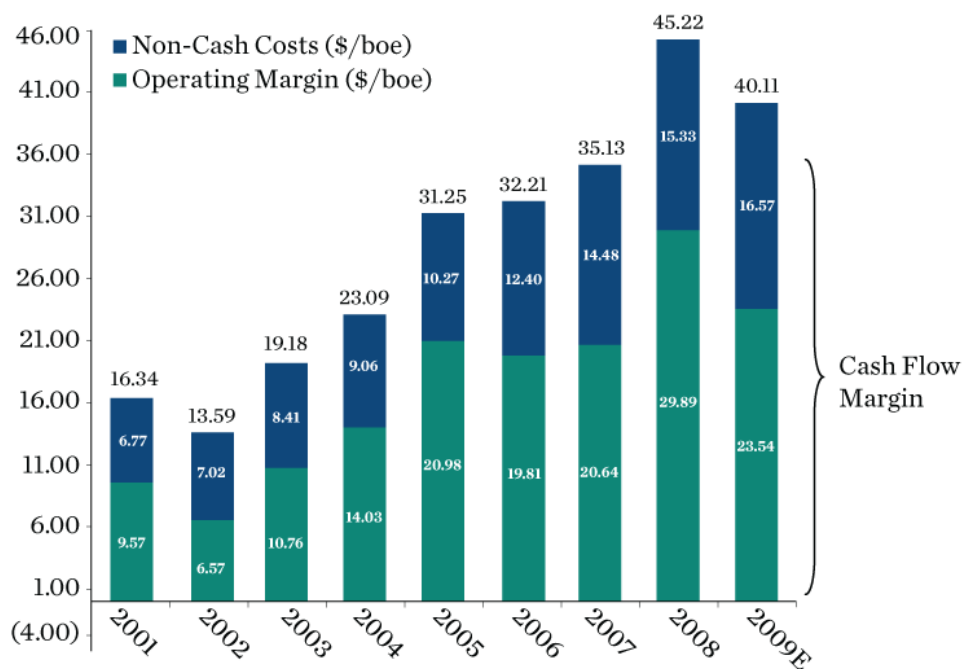


# OECD Crude and Product Inventories Also Look Normal



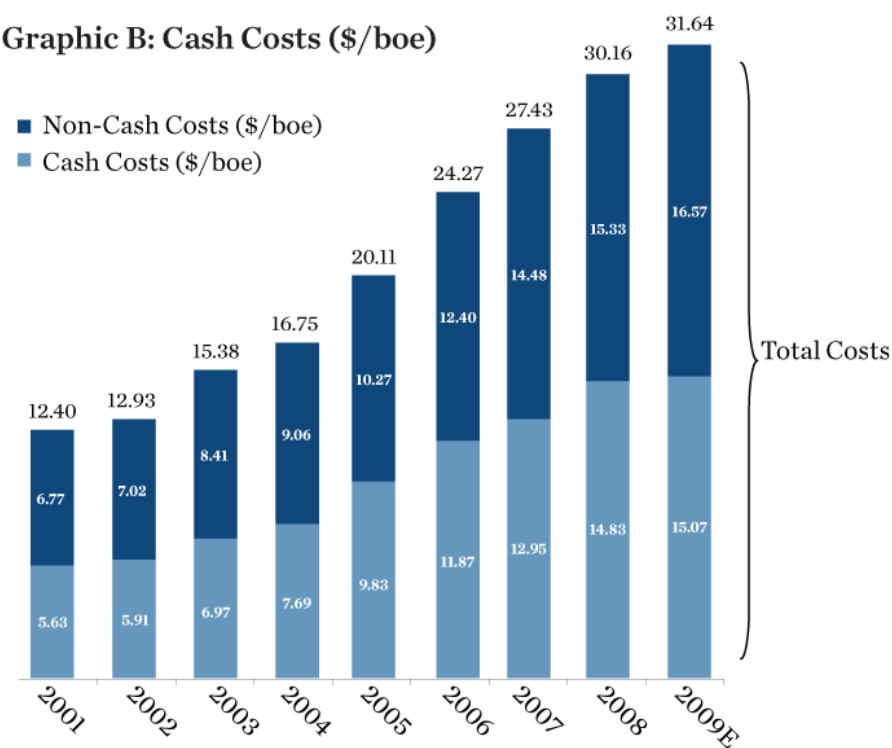
# Margin Expansion Slowed by Rising Costs

Graphic A: Average Pre-tax Cash Margin (\$/boe)



Source: Company reports and Lehman Brothers estimates  
 Note: Non-cash costs are DD&A, exploration expense, dry hole expense and impairment. Margin includes in period hedge effects.

Graphic B: Cash Costs (\$/boe)



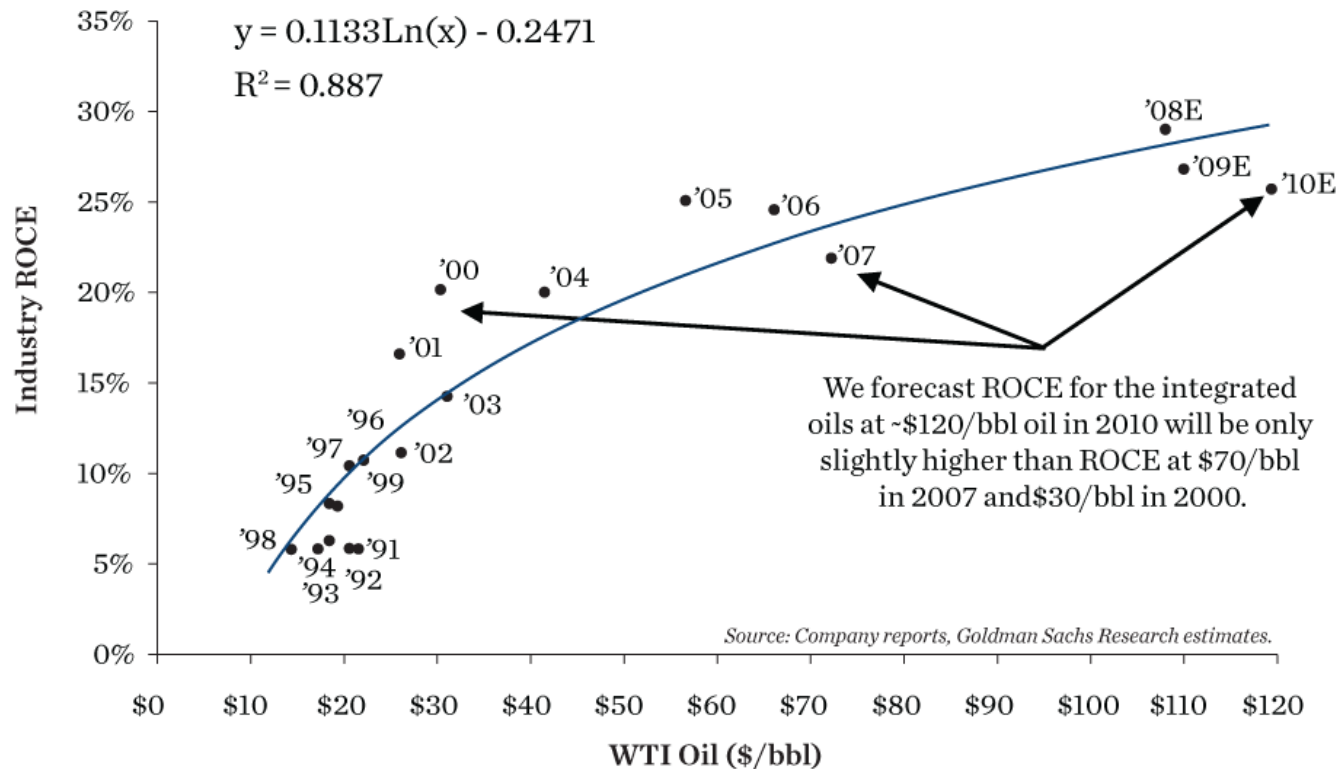
Source: Company reports and Lehman Brothers estimates



# Oil Profits are Not Excessive

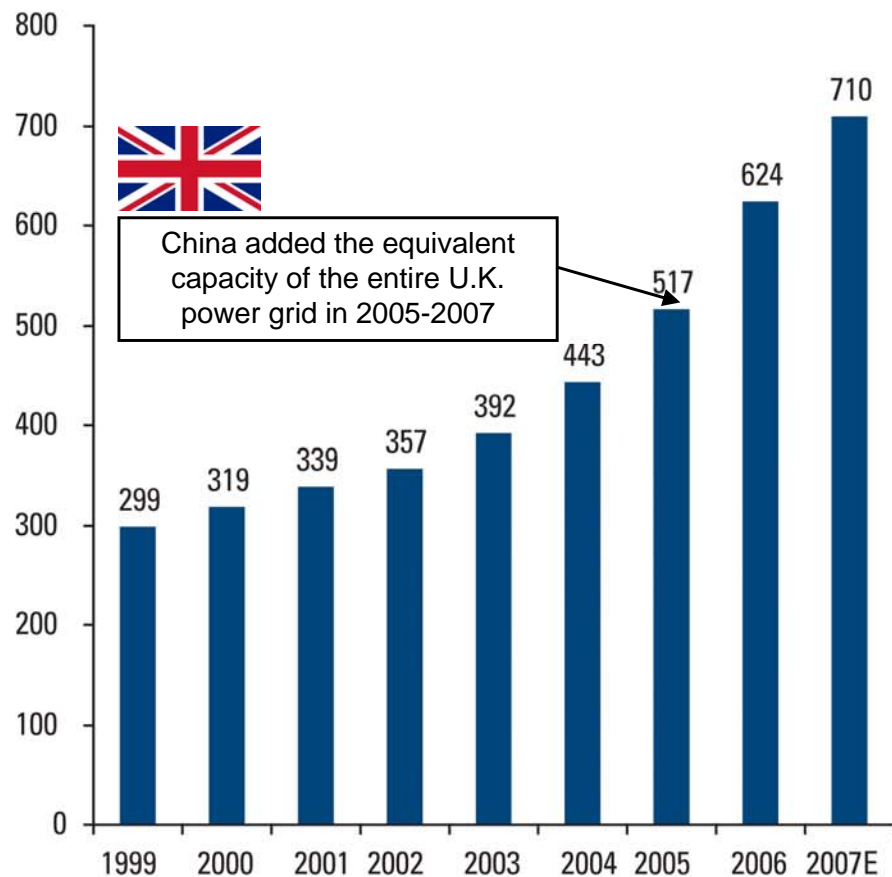
**Oil profits are not excessive: Integrated oils ROCE at \$120/bbl oil in 2010E comparable to \$30/bbl in 2000**

**Integrated oils include our North America-based super-cap and large-cap peer group**



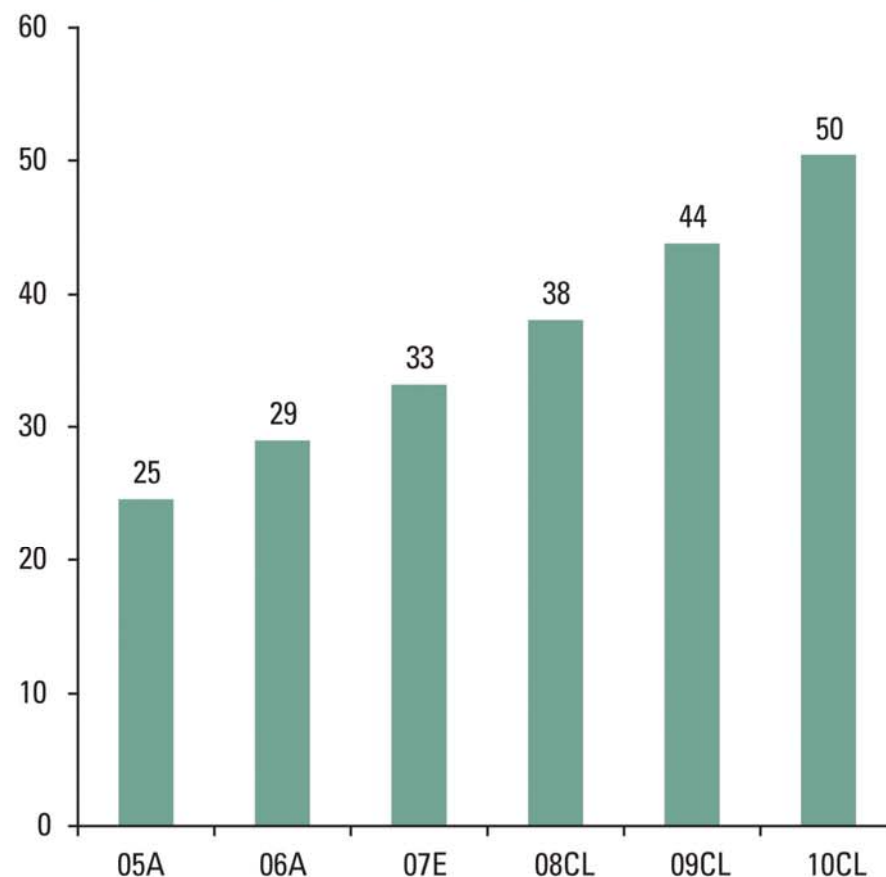
# China's Electricity Growth

Generation capacity (GW)



Source: CLSA Asia-Pacific Markets

China's power-grid investment plan (US\$bn)



Source: State Grid, Southern Grid, CLSA Asia-Pacific Markets

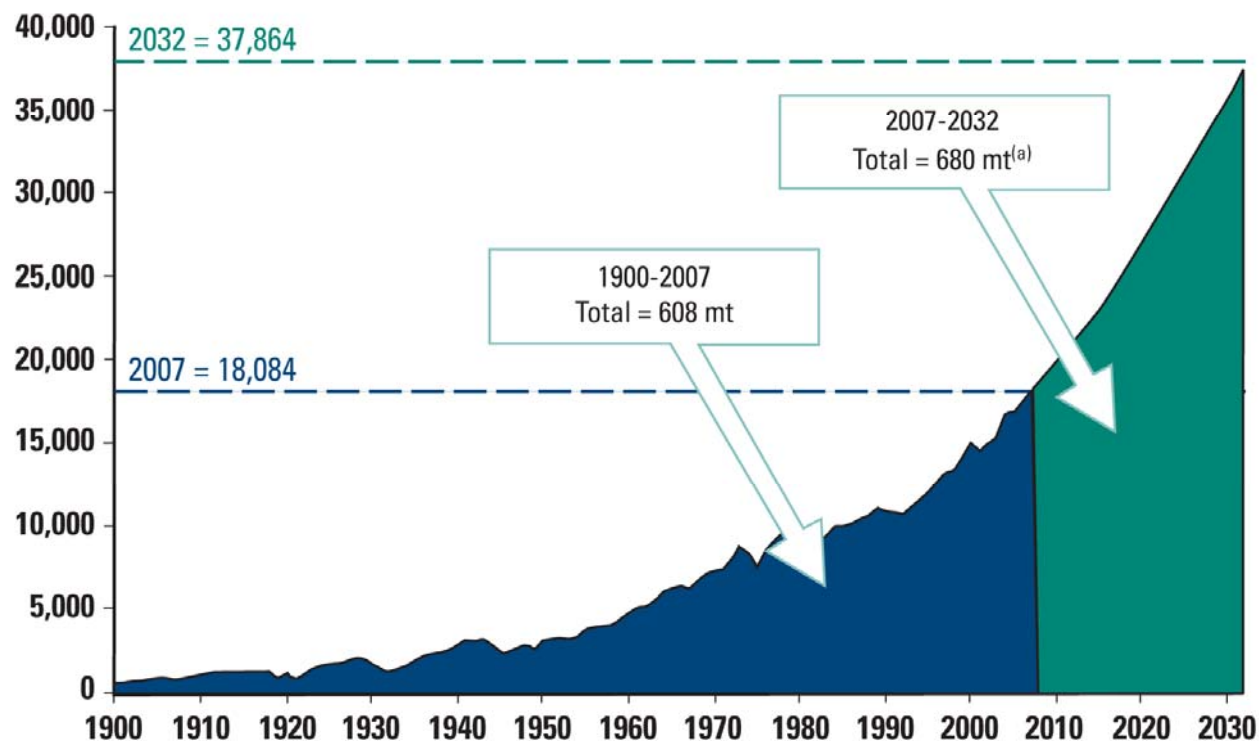




# Copper Demand

**To satisfy demand the world may need to mine as much copper over the next 25 years as throughout history**

World copper demand  
('000 tonnes refined copper)

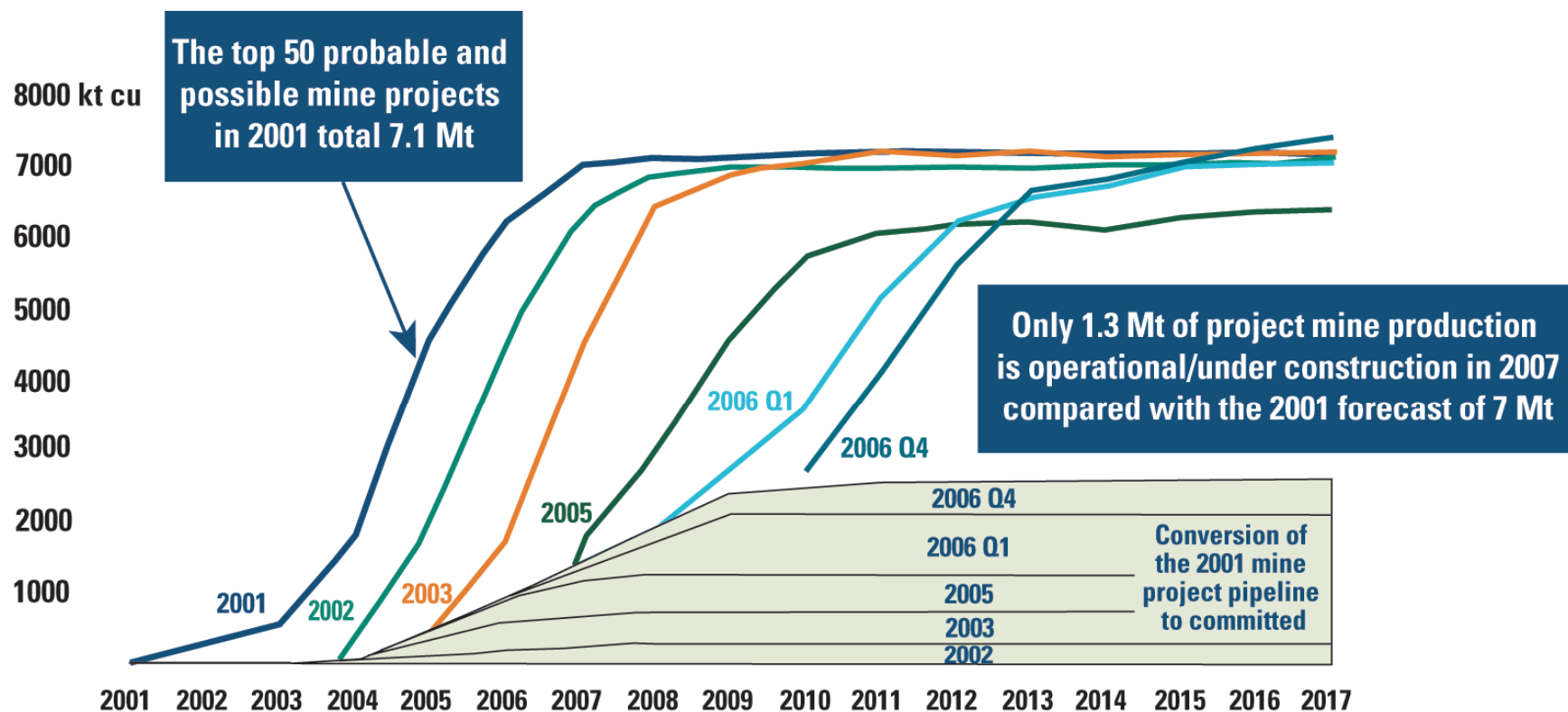


Source of data: CRU Copper Quarterly (January 2008); CRU archive data.  
(a) Future copper consumption based on a hypothetical world average growth rate of 3% p.a., based on a projection of similar growth patterns in world demand to the past 20 years.



# Limited Supply Response

## Projected Copper Growth in 2001: Expectations vs Reality

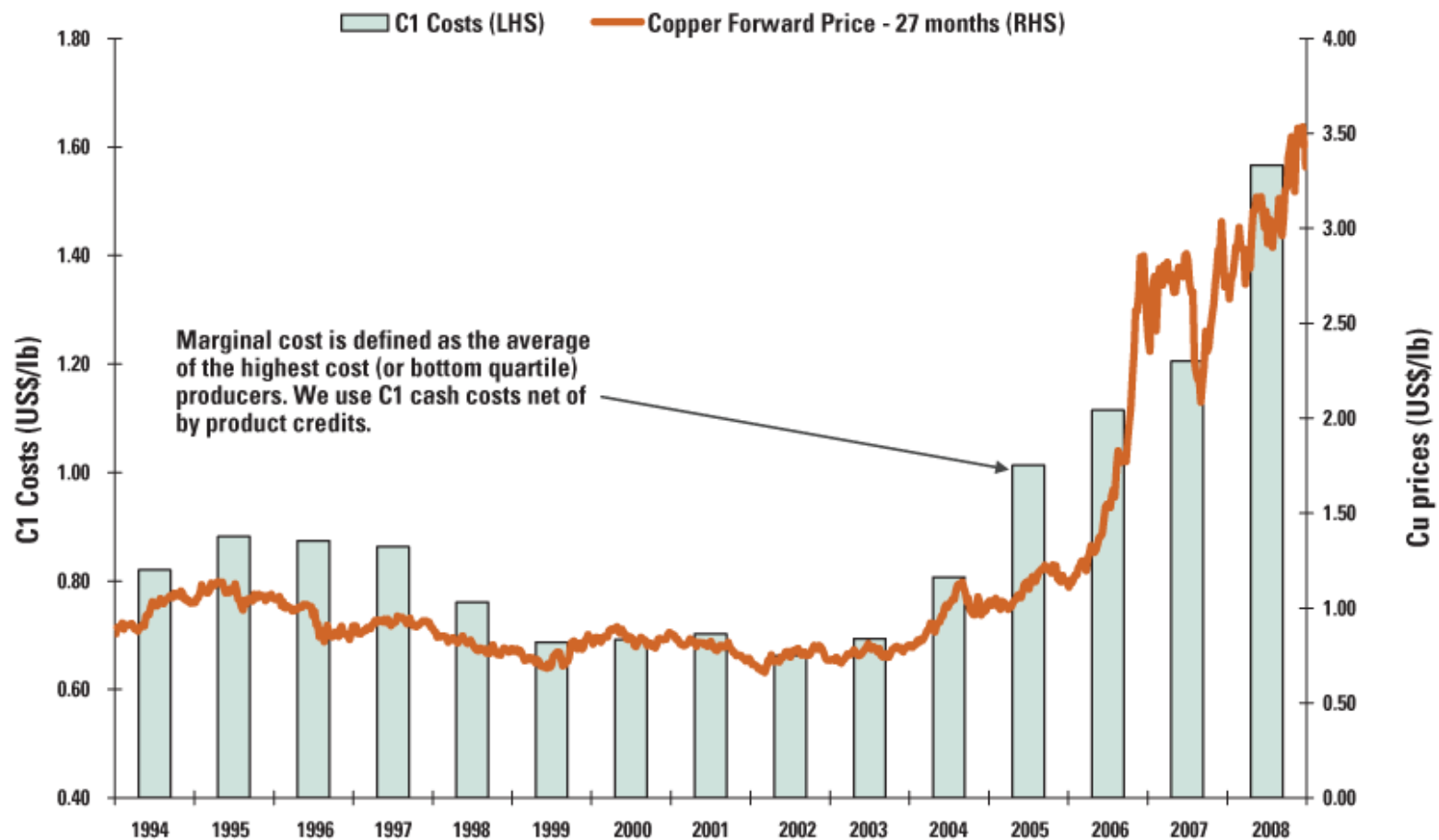


Source: Xstrata, Merrill Lynch & Co., Inc.



# Rising Costs Have Driven a Sharp Increase in Long Dated Prices

The delta between the bottom quartile production and the worst decile can be up to \$0.90/lb

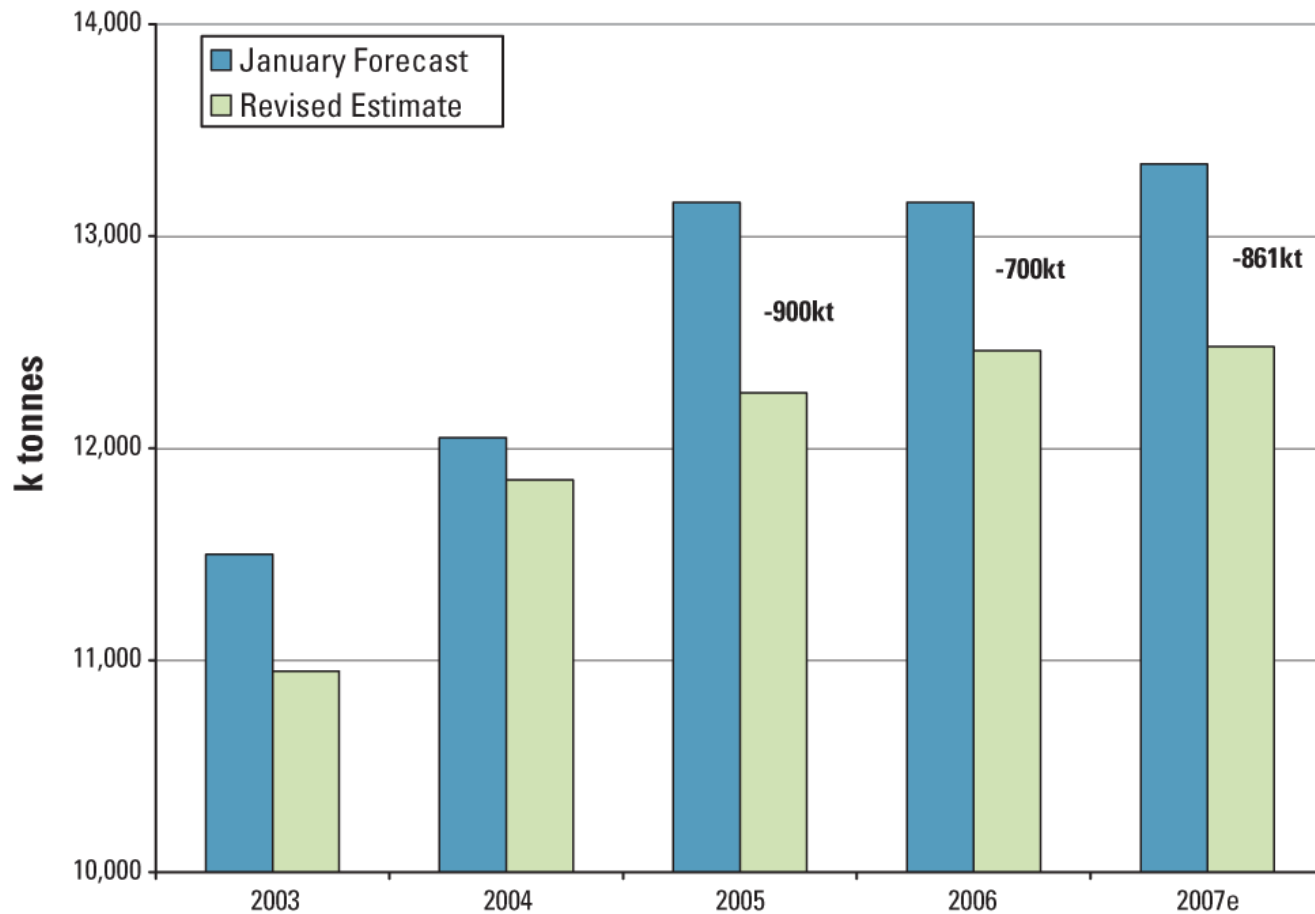


Source: Goldman Sachs Commodities Research, Goldman Sachs Research Estimates



# Supply Constraints Tighten Fundamentals

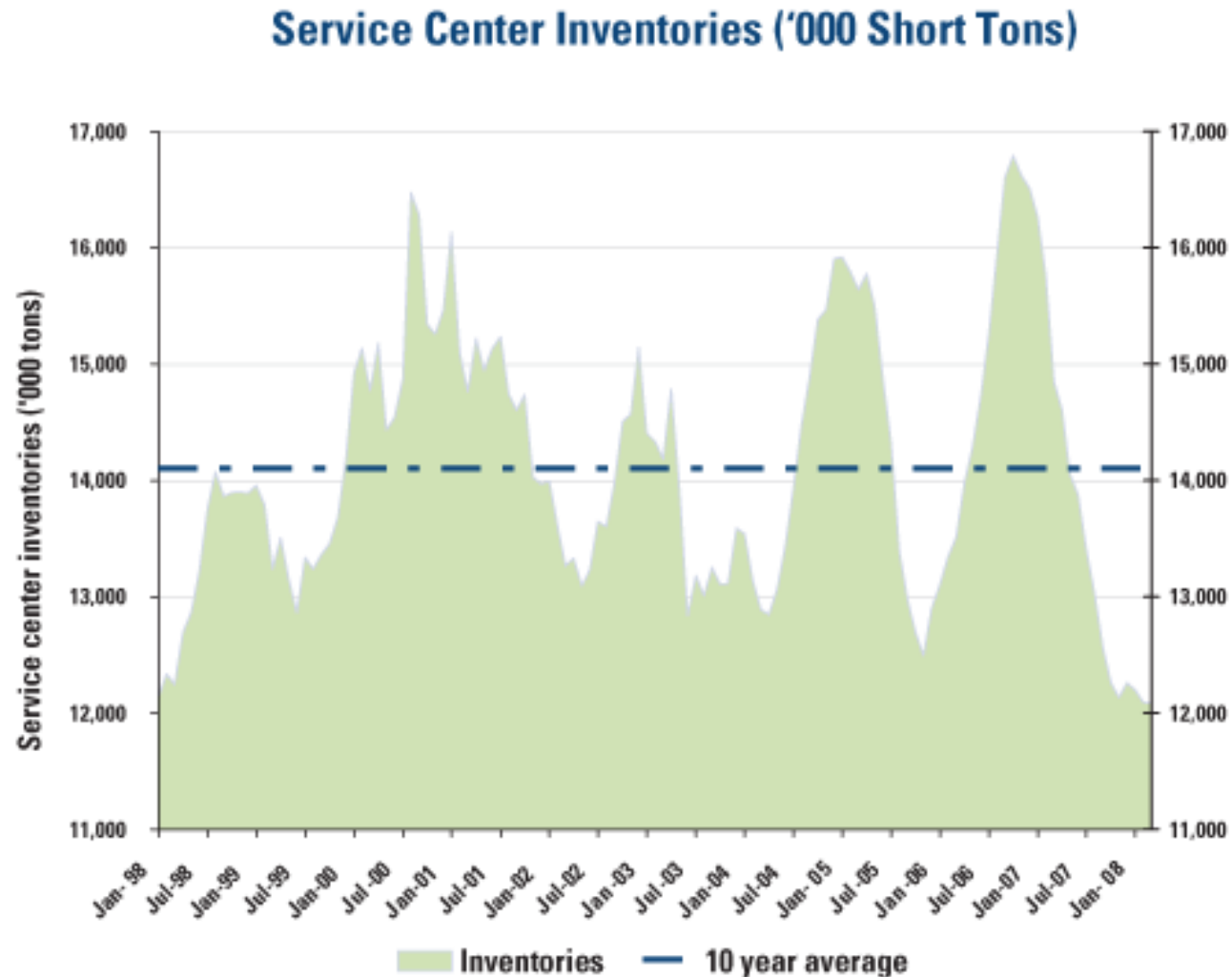
## Labor-related supply disruptions are a big part of the story



Source: ICSG, Goldman Sachs Research estimates



# Service Center Inventories Have Declined to Their Lowest Levels in More than 10 Years



# Fund Performance

| As of 3/31/08                     | 1-Year | 3-Year<br>(annualized) | 5-Year<br>(annualized) | 10-Year<br>(annualized) | Gross Expense<br>Ratio | Capped<br>Expense<br>Ratio |
|-----------------------------------|--------|------------------------|------------------------|-------------------------|------------------------|----------------------------|
| Global MegaTrends<br>Fund (MEGAX) | 13.15% | 10.80%                 | 15.75%                 | 4.78%                   | 2.55%                  | 1.85%                      |
| Global Resources<br>Fund (PSPFX)  | 28.38% | 26.37%                 | 43.12%                 | 18.63%                  | 0.96%                  | N/A                        |

*Gross expense ratio as stated in the most recent prospectus. Effective May 12, 2008, the Adviser has contractually limited total fund operating expenses (exclusive of acquired fund fees and expenses of 0.01%) not to exceed 1.85% for the Global MegaTrends Fund on an annualized basis through October 31, 2008, or such later date as the Adviser determines. Performance data quoted above is historical. Past performance is no guarantee of future results. Results reflect the reinvestment of dividends and other earnings. Current performance may be higher or lower than the performance data quoted. The principal value and investment return of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. Performance does not include the effect of any direct fees described in the fund's prospectus (e.g., short-term trading fees, if applicable, of up to 0.25%) which, if applicable, would lower your total returns. Obtain performance data current to the most recent month-end at [www.usfunds.com](http://www.usfunds.com) or 1-800-US-FUNDS. High double-digit returns are attributable, in part, to unusually favorable market conditions and may not be repeated or consistently achieved in the future.*



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.

# Disclosures

*Please consider carefully the fund's investment objectives, risks, charges and expenses. For this and other important information, obtain a fund prospectus by visiting [www.usfunds.com](http://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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The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies. The Reuters/Jefferies CRB Index is an unweighted geometric average of commodity price levels relative to the base year average price. 08-283



# Disclosure

Holdings in the Global Resources Fund and Global MegaTrends Fund as a percentage of net assets as of 3/31/08:  
Exxon Mobil (0.00%); Conoco (0.00%). 08-284

