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Transcript of
Permanent Portfolio Family of Funds
Portfolio Manager Conference Call with Michael J. Cuggino
November 8, 2017

Participants

Jordan Clopton – Director of Institutional Sales
Michael J. Cuggino – President and Portfolio Manager

Presentation

Jordan Clopton – Director of Institutional Sales

Hi. Good afternoon, everyone. I hope you can hear me here. I want to thank you for joining us today. This is Jordan Clopton, and I have Michael Cuggino, our CEO and Portfolio Manager on the line as well. And this is our Q3 Portfolio Manager Q&A Session, we really appreciate you all giving us some of your time today. It means a lot. We all know you have a lot of other things or items that are vying for your time and attention, so we appreciate you guys being on the phone with us right now.

It's good to see our attendance numbers for these calls creeping up each quarter. There's no science to what I'm about to say, I think it's purely anecdotal and merely driven by my own selfish desire to make myself feel better maybe, but I think we have more advisors dialing in because our Permanent Portfolio Fund is a little more relevant, given everything we are seeing geopolitically, fiscal and monetary policy-wise, and purely from a valuation standpoint.

We have no shortage of things to talk about, so I really encourage people to ask questions. Questions are the best way, obviously, to have a really great dialogue. To that end, right now, everyone is in listen-only mode. In a couple of seconds, I will turn it over to Michael, and he will take over with a quick recap of Q3 and touch on some of the core issues for 2018. Once he wraps up his introduction, we'll turn it over for questions. You have two ways to ask a question. There's a text box that you can type your question into, and I will read back your question, or you can click on that little hand icon, and I will unmute your line. There's always a slight delay with the audio, so give yourself like maybe a one Mississippi count before asking your question.

All right, so that's enough for me. Michael, why don't you kick things off?

Michael J. Cuggino – President and Portfolio Manager

Thank you, Jordan, and I'd like to thank everybody for participating, whether you're an existing investor or one that's considering an investment in one or more of our portfolios. I want to thank you for your interest. If you're an existing investor, thank you for your confidence that you've shown in investing in our strategies.

Jordan has provided a good lead-in, and we'll get to some of those factors as to why we believe that Permanent Portfolio is probably more relevant going forward than it has been maybe in the last few years. I'll touch on some of those factors in a few minutes. Just a quick kind of summary of the quarter, and where we are year-to-date with respect to our portfolios, before I get into that sort of analysis.

Performance data discussed is for the Class I shares and represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Investment performance, current to the most recent month-end, may be lower or higher than the performance quoted. It can be obtained by calling (800) 531-5142. For standardized performance, click here.

Permanent Portfolio continues—well, all of our portfolios are continuing to invest in their designated strategies. Permanent Portfolio continues its strategy in broadly diversifying across asset sectors, being promptly diversified all the time. Using that strategy, year-to-date, it's up about 9%. For the quarter ended September 30th, returns were driven primarily by aggressive growth in natural resource equities, to a lesser extent commodities, and bonds were roughly a break-even.

But a year-to-date performance, it's been mostly driven by equities and particularly, aggressive growth or traditional growth stock names with lesser contributions from natural resources and real estate stocks, and also, precious metals like gold and silver. Gold and silver are what's relevant in the third quarter than they are year-to-date. I would say that, that trend has probably continued so far in the fourth quarter, although the recent bump in the last couple of days has helped out those numbers as well. Bonds have been gradual, positive performers, with Swiss bonds being our best bond performers, year-to-date.

We have a pretty diversified mix of investment performance across our strategy. Yet, over the longer term, certainly we've had our challenges in the last three to five years, especially in the last five years with the sell-off in metals and the paper tantrum and some of the uncertainties relating to interest rates, and the sort of cyclical bottom in commodities.

In our view, there's a little bit of misconception sometimes about this portfolio, and we try to remind people what it does and what it isn't. It's not a short-term trading vehicle. It's never going to approximate an equity run in common stocks. It's something that you determine how much you need as part of an overall wealth accumulation, building, and maintenance strategy. You allow it to be part of a broader portfolio strategy. It's an absolute return, multi-asset strategy designed to perform in any market. There's been some discussion with respect to that as well.

Another misconception in our fund is that it's only an inflation driver or only performs well in inflationary environments. Then when there is an inflation or when metals aren't doing anything, the portfolio doesn't perform that well. That's not supported by data. Certainly, we're impacted by all of our asset classes: gold, silver, stocks, bonds as well. They're all pieces to the puzzle, but it's a misconception to assume that any one of them is signal-handedly going to drive returns. In fact, if anybody were to care to correlate or graph our returns over long periods of time versus any one asset class, say versus stocks, versus bonds, versus the price of gold, versus cash, etc., we're not going to correlate to any of them. We're going to be somewhere in the middle of all that, which is exactly how we're designed and exactly what we are supposed to be, as an absolute return fund.

It's difficult for us sometimes when we have misconceptions about our fund. It's only an inflation fund, it's only good for gold, etc., because they're really not true. It's a limiting view of our fund to consider the fund only with those asset classes in mind, and not look at it on its whole as a broad array of diversified assets all the time, all working together to provide a broad, multi-market sort of absolute return over different environments and different economic clients and different asset classes. The portfolio remains one that is designed to provide multiple avenues to growth, while also limiting downside risk in a number of environments and true to form, it does not try to predict the future. It minimizes portfolio manager risk or tactical allocation risk. Those sorts of things that are more driven by higher trading strategy.

As such, it acts as a good complement to those sorts of things, if you're trying to incorporate that into a broader environment. For example, obviously, given the precious metals, the exposure commodities growth, we expect to do well in inflationary environments, and we think we're well-positioned for that going forward. But even in periods where you had rising interest rates or deflation, the portfolio has had periods of time where it's done very well over those times as well.

We've done a marketing piece that we've distributed that shows various economic conditions and how our portfolio has performed. Obviously, the returns are variable, but it does clear up misconceptions. For example, '08 was a very deflationary time, and the portfolio performed pretty well relative to just about everybody else out there. During the '05 to '07 period of sort of no inflation, no deflation kind of mix but rising interest rates, the portfolio had a string of positive performance as well, that belie the sort of conventional wisdom that's said about it.

There are periods like that all time. Then again, any short-term trading strategy is such that anomalies exist, correlations exist. They can be very short-term. You can have those sorts of things happen in markets all the time, but over longer periods, the assets, the true DNA of the assets and the lack of correlation between them and how they react to each other and to other economic and financial stimulus, tends to hold true to form. I think that that's true of our portfolio. That would be Permanent Portfolio.

Our stock fund, Aggressive Growth Portfolio, year-to-date is up about 15.62%, primarily driven by and I would say, the equity performance in Permanent was also driven for the year-to-date by entertainment, leisure, and tech-related leisure, manufacturing, financial services, and to some degree lately, a return in energy and natural resource stock. Aggressive Growth continues to be a broad, focused strategy of equities only, multi-cap focused on 30 to 50 names, with a long-term 3- to 5-year bench in terms of how we see ourselves investing, low turnover, etc. It continues to maintain that strategy.

Our two bond funds, Versatile Bond Fund through year-to-date has been up 84 basis points. That is an investment of broad array of different types of fixed income instruments. It's primarily in corporate bonds at the moment, with a duration of about 3 years, an average duration of about 3 years, an average maturity of 3.7 years, and an effective duration of 3.4 years. It is primarily, like I said, investment in corporates, and it's roughly about three-quarters investment grade.

In this environment of rising interest rates, and we expect, and I'll get into this a little bit in a second economically, but I think we're in early days of a reversal of trend in interest rates and interest rate direction. It makes sense to be shorter duration and higher quality balance sheet, and take advantage of rising rates and turnover investments as they mature to higher rates. I believe we're pretty well-positioned there as well.

In our Short-Term Treasury Fund, for the first time in several years, we have a positive return. Obviously, it's a low-risk Treasuries and government-only type of product. We're running that in an average duration of 0.6 years, so still relatively short-term and again, it conforms to our belief that the Fed is in the middle of raising rates. We expect another one in December and probably more in '18, consistent with their comments. Again, I'll get into that in a second. The issue there is that, for the first time in quite a while, we're getting returns in Treasuries that exceed the cost of running the fund. And for short-term liquidity for a place to park assets, capital waiting for the next opportunity that remains a reasonable choice.

One other comment was the portfolios, for all of them, we expect to be paying dividends the first week in December. I believe the dates are December 5th or 6th of the record day. I know it's on our website, and you can confirm it there. You can also call Jordan, Dan, Patrick, Donald, or Brendan, or our Shareholder Services offices if you want exact information. Given the changing nature and the fact that performance and investment decision has changed daily, we do not have a specific number with respect to our dividends. But we do expect in all cases, for our distributions, our income distributions and our distributions, which we believe will likely be only long-term capital gain, we expect to be around historical norms.

I would say, specifically with Permanent Portfolio, we expect those dividends, both income and capital gains, to be consistent with periods before 2013. For those of you who had been in our fund for a while, you know that '13 through '15, we had dividend rates that were, and distribution rates that were a little bit higher than our historical norm. Although for the industry, they weren't that outrageous. Last year, we had a much smaller dividend and distribution. We expect another year of relatively—dividends and distribution that are more consistent with our longer term history than say versus the years '13 through '15. Again, we'll have more details on that, and please feel free to call our Institutional Sales team or our Shareholders Services office for more information on that.

With respect to where we are right now and how we see ourselves positioned, it is an interesting time. We've had a lot of conversations with advisers lately that are getting more nervous by the day, with respect to the strategies that have worked for the last few years. At what point do you sort of get off the merry-go-round, and begin to try to do something different, with an expectation that change may be coming?

I alluded to this in my notes on the semi-annual report that we issued in late September. Right now, the stock market is doing well. It's supported by corporate earnings. It's supported by a belief in better fiscal regulatory policy to come, more Capex spending, potentially more lending, better economic growth, etc. In fact, we've had two straight quarters of GDP growth of around 3%, which is something we haven't had in a while. There's certainly no reason to go out and sell stocks in and of themselves; however, there are some factors that I think investors need to consider that make the period of time where we're at a little bit more interesting than say the period over the last several years.

For the most part, with some changes in the middle, an investor did very, very well by simply buying stock and bonds indexes and being long those indexes. Cheap capital was obtained and spent buying stocks and bonds of real estate. For the most part, that's been where capital has been allocated. For investors that have been long those investments, it's worked out very, very well. In fact, running a firm that really are philosophical believers in hedging and diversification and multi-assets, it's been a time that has been difficult for us. Although we have been around since 1982, and we really believe in the long-term thinking and what we do over the long-term, unlike many other strategies, we have the numbers to back it up, it's been challenging. So the conditions that have caused that, the cheaper money, the quantitative easing, the lack of maybe, aggressive business development, squeezing out every dollar or profits and earnings from low revenue growth, etc., all those characteristics, I can't say it's changing right now. In fact, maybe in won't, but just maybe it will.

We are on the verge or we're in the early days of an interest rate directional change with Federal Reserve policy likely to change, with the new chairman coming in and the growth attributes that the current administration is talking about. Whether those come to pass or not and to what degree, I think, remains a very open question. There's a philosophy of reallocating capital away from just stocks and bonds and real estate to more productive assets in the economy, the production of goods and services, etc. That is a change from what we've had.

The fact that we have a directional change in interest rates already started with more to come, with more likely to come, is something that is a change. The yield curve has begun to, and this has been happening gradually for a while, but it continues and we expect it to continue more, the yield curve is flattening. The spread between twos and tens have continued to compress. That's true across the curve in other ways.

The fact that global growth is resuming after being dormant for quite a while and the global interest rates are beginning to rise en masse, creating a situation where up to this year, the Fed, our Fed was going in one direction, even raising rates and all, while the rest of the world was in negative rates and still doing quantitative easing. While some of those policies are still true, you can't deny the fact that the yields on global sovereign debt all over the world have begun to go back up. Economies in many parts of the world have begun to improve. That's also helped the US economy, but it also means that other central banks may be directionally going the same way that our Fed is going, and to the extent that that growth picks up and accelerates, etc., will have impacts on our own growth rates and our own monetary policy, which has implications for the strong dollar that's been in play for the last couple of years and how that impacts emerging markets. That's a factor that needs to be considered.

Certainly, the change in administration and policy, the focus on reducing some regulation and potentially reducing corporate tax rates, accelerating depreciation, now not as much done on a personal side as yet—but again all this is so preliminary it's tough to game plan this day-to-day, and it's probably best that we don't, and just wait to see what comes out of all this, and then plan around it. But the fact remains that, if incentives are provided to do spending in a certain way versus another way, then it's likely that that's going to follow. I don't think it's surprising that US manufacturing, industrial stocks, material stocks, those sorts of things have been good performers this year, in anticipation of that.

I think the question that you've got to ask is, while a lot of things worked for the last several years, are they going to work going forward? The question is maybe, maybe not. The answer is maybe, maybe not. Like I said, I'm not saying that we'll have a sell-off in stocks per se. I don't believe stock runs just end because somebody says well, it's time for the stock market to end its run, but there will be factors that will drive it. Rising interest rates are cumulative. The more you have, the more aggressive they are. The quicker in succession they come. That could have a way of potentially making the choice for investors between bond investing and stock investing that much more difficult. The risk reward calculus for most investors is pretty easy when the cost of capital is low. When the competing yields and risk on bonds go up, especially if you're in shorter duration and riding the curve, that decision to invest only in stocks or to have the heavy allocations you have versus bonds begins to get very interesting.

Similarly, the knee-jerk reaction that as interest rates go up, gold goes down, is really just that. It's a knee-jerk reaction. It makes sense. The opportunity cost to own gold goes up when it doesn't earn interest and dividends, etc. That's true. The real question is, what's causing interest rates to go up. In many cases it's the same reasons that are causing gold to up. In fact, they do act much more in tandem, and they're not the sort of reverse correlation-type trade that typically, you might see or the knee-jerk reaction that you typically get by investors that interest rates go up, gold goes down. In fact, we ran a study recently on this issue. We looked at almost 30 years' worth of data going back to 1987, where gold is charted versus the Fed's effective interest rates. We noted a very low correlation. There is no correlation there exactly, or really a strong negative correlation. It's just a zero, or it's a very low number.

I think, the same factors that drive interest rates, especially gradually rising interest rates, will also drive inflationary pressures and with that, assets that are used to hedge those sorts of pressures.

Not surprisingly, wage pressures are starting to build. The inflation number, while still very low, is beginning to creep up and be near the Fed's target on a more consistent basis. Unemployment remains very, very low. In fact, it's very low to the period I saw in statistic recently that when the 2000 recession started in, I guess it would have been April of 2000, sometime in spring in 2000, we had an unemployment rate at that time of 3.8%. I'm quoting others on this, so I don't have the data in front of me. We're not that far off in terms of unemployment from that, And so when you start looking at that—and not surprisingly, also that was a period where interest rates began to go up, post Y2K and the low rate environments leading into late 1999 and early 2000.

There are some things to be cautious of for investors. While the last several years have worked very well, I believe the next several are going to be very different, in terms of return expectations, in terms of what's going to work, in terms of asset classes, and also volatility. Like I mentioned, we're in a rising rate environment, but also I think, you have to consider the issue that we've never had this degree of liquidity to be drained out of the sort of economic system, if you will. Between quantitative easing and low rates, etc., there's been a tremendous amount of liquidity created, not only here but globally. It's been a little deceiving. Because money was ploughed into stocks and bonds and real estate, it wasn't—the velocity on the liquidity created was relatively low with respect to things that would create inflationary pressures, and the inflationary pressures caused by money flowing into the production of goods and services.

Velocity was fairly quiet, which makes it seem on a day-to-day basis that there is no inflationary pressure. I would agree with that; however, with the change in dynamics that we're currently seeing or could see in the next few years, that may change. You could see more lending. Keep in mind, the banks had no incentive to heavily lend into the economy during quantitative easing because you could earn 25 basis points by keeping it on deposit with the Fed. You had real business risk in making bad loans.

To the extent you're opening up the business environment, you're creating incentives to grow businesses, to spend on Capex, to do business development, that could create more lending, more money flowing in the economy, more money flowing in the production of goods and services, and thereby increase monetary velocity and increase inflationary pressures, maybe at a higher rate than you'd otherwise see. That could create more volatility. It could create quicker succession or quicker periods of—quicker interest rate increases or shorter periods in between those rate increases. Maybe potentially, higher rate increases.

You can have greater competition for yield among global investors between US and non-US fixed income. The US has had a pretty cushy position in the last several years. For a while, we were one of the only ones that had positive yields. You got the benefit of the United States' private property rights, political system, etc., and you're getting positive rates versus the rest of the world that were negative rates and in more economic trouble. To the extent you have more competition for the global fixed income investor that could put pressure on US bonds as well. There's a lot of factors to consider, and so it makes sense at this point for investors to sort of think about what's coming next, how should I be, should I be diversified. If so, how much?

I think the period where diversification and asset allocation is going to come back into play more and more—in fact, I think we're seeing it in talking to some of our investors and potential investors and investors that were with us for a while a few years ago that went on to reallocate another thing. It is a factor to think about, and we believe we're positioned regardless. We believe that we have sufficient hedges and return capabilities to do very well in an inflationary environment. We also believe that if it goes the other way, we have sufficient protection and hedges built in in a deflationary environment, which is the way we've always been, and we still believe that we have that.

At this point, I want to open it up to questions. I want to thank everybody for their time, for their interest, for their confidence. We stand here ready to help you meet your and your investors' goals. We continue to seek to build, grow, and maintain wealth over the long-term and in the tax-efficient manner that seeks to grow at a rate greater than inflation. We hope that that's a part of your strategy.

On that point, I think, just to put a sort of final number on it, going back since '82 when we first started the fund, on an average annual total return basis, you can see this on our data sheets, we had an inflation rate as measured by the three-month Treasury Bill Index of a 3.85%. So not exactly CPI, but it's a securities index that approximates risk-free Treasury securities. Our return over that time since '82, again in all conditions, all economic environments, was 6.1%.

The portfolio throughout its history, higher inflation for the first maybe third to half of its existence, lower inflation, maybe the last, the second-half of its existence, has beaten inflation by 225 basis points over 35 years and counting. I think it's a fair question for investors to ask and for advisors to ask, is there a place in a portfolio at some level that has a documented history of returning 6.1% over multiple economic scenarios and risk factors and financial climates, and etc., versus that inflation rate, and would you take that for a portion of your portfolio as part of an overall mix of assets and mix of strategies. I think for many people the answer is a favorable one, and it's something to leave you with in terms of my formal comments.

Thanks again. Good luck the rest of the year to everybody. Always feel free to contact us with questions, to set up conference calls. I believe part of my job is to be available. We remain a small firm, and part of that smallness is designed to be more accessible to investors and to speak with investors and advisors, and explain what we're doing and why we do it. I believe it's a significant component of who we are. Feel free to call, and thanks again.

Jordan Clopton – Director of Institutional Sales
Before you log off, everybody, feel free to ask questions. Again, hit the raise-your-hand icon, or email me a quick question. I'll see if anybody wants to ask anything.

All right, we have Brad Skiles. Hi, Brad. Hold on a second. Here we go. All right, Brad. You've been unmuted.

Brad Skiles
Yes, okay. Thanks. Quick question. You commented on obviously the low unemployment rate. Do you have any concerns whether the declining labor force participation rate is a better indicator of the economy than the unemployment rate?

Michael Cuggino – President and Portfolio Manager
Yes, thanks for the question, Brad. I would agree that it's a significant factor. I also—one thing that I didn't touch on that is also a factor is the degree of technology evolution, if you will, and how that's impacting employment and the relative age of our workers. Technology is certainly having a huge factor in employment, and that's impacting productivity.

I don't know if I'd say productivity is a better indicator or a worse one. I'll leave that to formally trained PhDs in economics, but I think that they're both significant, and you want to consider both in an assessment of where we're going. I don't think its impact is enough to change my conclusion on employment and unemployment, but it is a significant factor that maybe is causing more of an impact than it has in previous periods. I think the one thing that remains—one thing that's related to this question is, is actual growth in terms of what kind of growth rates do we want this country to have and what's the positives and negatives of whatever growth rate we decide to choose?

The one negative, I guess, by having technology do more is you potentially put people out of work. If you have a stagnant economy or one that's say growing at 2% or less, for example, the ability to put those people back to work in new industries, new businesses, the incentives, the business development incentives, just aren't there. Think in simple terms, nobody knew they needed an iPhone until Apple went and created it. In an economy, pre-iPhone, if Apple wasn't incentivized properly to create that, you'd never even know you need it. Think of how many people, not only at Apple, but in terms of the ancillary software developers, service providers, etc., to that company and those apps providers, think about the multiplier effect of that economic impact.

I think the key thing to offset the negatives of technology improving our working lives in many areas would be to provide more incentives for us to develop new technologies, create new companies. Think of things that we haven't even determined that we need to do, and throw a lot of capital at them. It's likely that many of them will be successful, and employ some of the people that are being put out of jobs by technological advances. Traditionally, that's a dynamic impact of the US economy that we've seen over decades. I think the one positive attribute if we do get a growth package, and we do get growth incentives, and they really are worthwhile and not just for political purposes, would be that you might begin to get some of that business creation.

If you're taxing corporations at 20% versus 35%, spin more small businesses, LLCs, and whatever at a reduced rate, then you're putting incentives in place for people to create new businesses and new technologies and new goods and services. They'll employ some people that have been outsized at companies where technology has taken over.

I think that rolling dynamism of the US economy is something that we want to promote. How it impacts the current unemployment number, I think it's significant, but I wouldn't rely on that or the unemployment number in and of itself. I think there's a broader question with respect to employment creation and technology that also is impacted in that question.

Jordan Clopton – Director of Institutional Sales
All right, Michael. We also want to get to a question from Joe Gallemore. Joe is asking why is the real estate sector performance much better than the benchmark. Joe if you're still there, I'll unmute your line if you want to sort of ask that question.

Michael, I have up for everybody that's on the call our Schedule of Investments from July 31, 2017.

Michael Cuggino – President and Portfolio Manager
Sure.

Jordan Clopton – Director of Institutional Sales
Joe, your line's unmuted.

Michael Cuggino – President and Portfolio Manager
Joe, are you there, or is Jordan's paraphrasing sufficient? Joe's not there, so I'll address the question, Jordan. I think it's a question of sector and issuer selection, really. Historically, we try to diversify our real estate exposure over a number of different REIT subsectors and real estate sectors. We've had exposure in areas that have been very, very good performers. The question is with the rising rate environment will they continue to do so.

It's an active area that we continue to look at, given that we made significant vets in real estate going back several years when a lot of REITs were being sold off, post-financial crisis. Many of those have worked out tremendously well for us. The idea was that the proverbial baby and the bath water were being thrown out under potential credit and balance sheet issues, and we felt that many of those were being way overdone. We bought shares in many of them and have continued to hold them, but also trimmed in the positive markets as well. Things like office, office REITs for example, warehousing REITs, data center REITs, we've had exposure in some of these areas that have been good performers in the REIT sector, and I think that describes probably the reason why.

Jordan Clopton – Director of Institutional Sales
Okay. Anybody else have any other questions for us? Okay, Michael, if you feel like you've touched on everything you wanted to cover today, I think that does it for the call.

Michael Cuggino – President and Portfolio Manager
Yes, again, I'd like to thank everybody again, and good luck in the fourth quarter and year-end. Thank you for your investment or your consideration of us as an investment. Feel free to contact us with any questions you have going forward. So, thanks again.

Jordan Clopton – Director of Institutional Sales
Michael, thank you for the time, and thanks everybody that joined us today. We greatly appreciate you taking time out of your day. If you need anything from us, you can always email me, jordan@permportfunds.com or call me directly (617) 841-2501 or Brendan Stack, Don Conway, Dan Vayner, or Patrick Moeller.

Again, thanks, everybody, for the time. We greatly appreciate it. Take care, and enjoy Thanksgiving, enjoy the holidays, and have a great end of 2017.

Please click here for a current Prospectus.

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Any forward-looking statements speak only as of the date they are made and the Fund assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements.

Any tax or legal information provided isn't an exhaustive interpretation of some of the current income tax regulations. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. Neither the Fund nor any of its representatives may give legal or tax advice.

Fund holdings, standardized performance figures, and since inception returns against each Portfolio's respective benchmarks can be reviewed by clicking on the following fact sheets – Permanent Portfolio, Short-Term Treasury Portfolio, Versatile Bond Portfolio, and Aggressive Growth Portfolio. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

Stocks are generally perceived to have more financial risk than bonds in that bond holders have a claim on firm operations or assets that is senior to that of equity holders. In addition, stock prices are generally more volatile than bond prices. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. A stock may trade with more or less liquidity than a bond depending on the number of shares and bonds outstanding, the size of the company, and the demand for the securities.

REITs are subject to risks similar to those associated with direct ownership of real estate, including loss to casualty or condemnation, increases in property taxes and operating expenses, zoning law amendments, changes in interest rates, overbuilding and increased competition, variations in market value and possible environmental liabilities. In addition, REITs involve other risk factors, including poor performance by the REIT's manager, changes to the tax laws and failure by the REIT to qualify for tax free distribution of income or exemption under the 1940 Act. Furthermore, REITs are not diversified and are heavily dependent on cash flow.

Standard & Poor's 500 Composite Stock Index is a market-capitalization weighted index of five hundred unmanaged common stocks and is widely recognized as representative of the equity market in general. Returns shown for the Standard & Poor's 500 Composite Stock Index reflects reinvested dividends as applicable, but do not reflect a deduction for fees, expenses or taxes. 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 MS US REIT Index is a capitalization-weighted benchmark index of the most actively traded real estate investment trusts (REITs), designed to measure real estate equity performance. Citigroup 3-Month U.S. Treasury Bill Index tracks the performance of U.S. Treasury bills with a remaining maturity of three months. An index is unmanaged and is not subject to fees and expenses. You cannot invest directly in an index.

Comments made by call participants are not representative of the experience of other clients and are no guarantee of future performance or success.

Permanent Portfolio invests in foreign securities and emerging markets, which will involve greater volatility, political, economic and currency risks and differences in accounting methods. The fund will be affected by changes in the prices of gold, silver and U.S. and foreign aggressive growth, real estate and natural resource stocks. The fund will also be significantly affected by economic, monetary or political developments in Switzerland due to investments in Swiss franc assets. The fund may invest in small- and mid-capitalization companies, which involve additional risks such as limited liquidity and greater volatility than large-capitalization companies.

Aggressive Growth Portfolio's stocks may appreciate in value more rapidly than the stock market, but they are also subject to greater risk, especially during periods when the prices of U.S. stock market investments, in general, are declining. The Portfolio invests in smaller companies, which will involve additional risks such as limited liquidity and greater volatility. The Portfolio also invests in foreign securities, which will involve greater volatility, political, economic and currency risks, and differences in accounting methods.

Short-Term Treasury and Versatile Bond Portfolios' investments in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Investments in below investment grade bonds (also referred to as "high yield" or "junk" bonds) present a greater risk of loss to principal and interest than higher-rated securities. Investments in foreign securities involves greater volatility and political, economic and currency risks, and differences in accounting methods. These risks are greater in emerging markets. In addition, certain investments may be illiquid and may be difficult to purchase, sell, or value. The Federal Deposit Insurance Corporation, or any other government agency, does not guarantee an investment in the Short-Term Treasury Portfolio. Therefore, it is possible to lose money by investing in the Short-Term Treasury Portfolio.

Beta is defined as a measure of systematic risk, or the sensitivity of a manager to movements in the benchmark. A beta of 1 implies you can expect the movement of a manager's return series to match that of the benchmark used to measure beta. A basis point is a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form. In most cases, it refers to changes in interest rates and bond

yields. The price-earnings ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The Consumer Price Index (CPI) measures the change in prices paid by consumers for a representative group of products and services. Capital expenditure (CAPEX) is money invested by a company to acquire or upgrade fixed, physical, non-consumable assets, such as buildings and equipment or a new business.

Earnings Growth is not a measure of the Fund's future performance. Diversification does not assure a profit or protect against loss in a declining market.

Must be accompanied by current Fund fact sheets.

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