Transcript of Permanent Portfolio Family of Funds
Portfolio Manager Conference Call with Michael J. Cuggino
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Participants
Jordan Clopton – Director of Institutional Sales
Michael Cuggino – President and Portfolio Manager

Presentation
Jordan Clopton – Director of Institutional Sales

Hi. Good afternoon, everyone. Thank you for joining us today. I'm Jordan Clopton, and I have our CEO and Portfolio Manager, Michael Cuggino, on the call with me. This is our Q4 Portfolio Manager Q&A Session. This has been a very interesting February, for sure, which means no shortage of things to talk about. I hope we get a lot of great questions from everyone. Speaking of questions, right now everyone is in listen-only mode. Once I turn the call over to Michael, he will kick things off with a Q4 review, and obviously touch on some of the issues of the past week or two.

After Michael wraps up his thoughts, we will turn it over to questions. You have two options for asking questions. You can click on the little hand icon and I will unmute your line, or you can simply email me a question using the little text box.

With that out of the way, I want to thank everyone again for giving us some of your time, and I'll get out of the way and let Michael jump in. Go ahead, Michael.

Michael J. Cuggino – President and Portfolio Manager

Thank you, Jordan. I want to thank everybody for calling in; prospective investors, existing investors, or just people with genuine interest, thank you very much. As Jordan said, last year finished up in an interesting fashion, but yet it was a totally different market than really what started right after literally the beginning of the year. It's almost like there was a bright line on December 31 and you had two different markets; the market of last year and last quarter being a gradual bleed up, anticipation of better regulatory and fiscal policy, the tax cut momentum took place in the latter part of the quarter and that helped propel stocks, the expectations and the recalibrations of corporate earnings under a new tax regime all, I think, contributed to the year-end in equities and in other asset classes, to a lesser degree, commodities rose up and precious metals and the like as well.

Starting in this year, one thing we've been saying quite a bit for a while now is that we expected volatility to increase, and that did, in fact, happen, and likely is going to continue to happen. I think the gain so far, you had a very aggressive January, a February that so far has been all over the place. I think we're still up positive for the year in the equity markets, but it's been quite a wild ride, and a lot of the gains from January have been reversed out, at least for the moment. The VIX is trading at multi-year highs, you see tremendous flows going in different directions, there's been whispers of margin calls in different asset classes and you've had some issues in some ETFs, had an expected level of performance in markets like this that did not perform or are not performing up to standards. All of these are indicative of higher volatility periods, and these things aren't unusual, they're normal.

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I think probably the biggest issue is that we haven't had really a technical correction. This week, we had a brief one, I think it was yesterday, but we really haven't had even a technical one from literally February 2016, so you had a period of two years with pretty benign markets.

I think going forward this is going to be the norm. Again, our firm has been saying for a long time that at some point, the reconciliation, I'll go back to my accounting days, the reconciliation between fiscal policy and monetary policy was going to have to occur and that could be a bumpy ride. The liquidity that's been created over the last several years, regardless of its velocity and where it's been parked or what it's been doing, there's been wealth, money created and it remains to be seen in a different economic circumstance how much that liquidity was needed, will be needed, etc.

In addition, you have really a sea change in climate. I would argue that probably the last eight years, and maybe even going back into the final years of the Bush administration, you had somewhat of an economy that was slowing down, or in recession, or growing but at anemic rates, you had quantitative easing, you had low interest rates, you had lack of monetary velocity, you had money going into stocks and bonds and real estate versus productive assets. And the incentives, fiscal and tax-wise, were geared towards that sort of behavior, and so they encouraged that sort of behavior.

We are now, in the last year or so, really shifting gears with respect to less regulation, a more growth-oriented tax policy, but growth in terms of productive economic growth, the accelerated depreciation items as an example of the new tax bill, and the focus on infrastructure, the focus on industrials, the focus on made in America, all of these sorts of things are promoting a sort of economic growth scenario.

What we're seeing is the early stages, in all likelihood, of a redeployment of capital between investing types of assets into productive economic assets. That's not necessarily a bad thing. In fact, probably in the long-term it's a healthy thing, but it's going to create some disruption and dislocation. I think we're seeing some of that. Interest rates are rising, and recently, after the yield curve consolidating a little bit in the last week and a half or so we've seen spreads like the 2 to 10 and the 5 to 30 begin to widen out a little bit, especially the 2 to 10.

That's also probably reflective of stronger economic data, probably a reaction to the inflationary data that came out last week on wages, and probably healthy in terms of a growth scenario, but also indicating the likelihood of more interest rate hikes, or at least the expected 2 to 4 that the Fed has been talking about versus maybe a 0 to 2 or 3 that some people had hoped for.

You, in addition, have a brand-new Fed chair, and while the markets believe that they understand him and how he's going to think and how he's going to behave, that's always an interesting thing as the markets and the new direction of the Fed, or at least under the new chairman, begin to get to know each other a little bit more. So, that also adds some uncertainty.

All of these factors are out there, and I'll get back to them in a second. I just want to touch on our portfolios briefly and then get back to where I see we're positioned and how we stack up in all of this. Permanent Portfolio, for the calendar year ended, was up 11.43%; that's in its I Shares class. That comes off of the data sheet that many, or if not all of you, have already received.

The primary drivers of performance, obviously, everybody knows it's a multiple asset class strategy, low volatility, tax efficient strategy, and one that focuses on diversification all the time. Most of the return was driven by stocks last year, especially aggressive growth stocks, with lesser contribution from natural resources and real estate, so of the 11%, probably 8%, rough numbers, was driven by equity performance.

The remaining 2% to 3% was driven by primarily gold, a little bit of help from silver, and to a lesser degree bond yields, especially the Treasuries and Swiss bonds and the high-grade corporates, but to a much lesser degree. If you broke it down, it's probably 8%, 2.5%, 1%, something along those lines, to get to the 11.5%. It was broadly based in terms of the how the asset classes performed, and I think they were reflective of the actual economic activity and the market dynamics that were actually at play.

The primary equity-driving industry sectors were entertainment, leisure and technology. Manufacturing and transports, again in anticipation of better economic activity, more activity, focus on industrial productive assets, those categories did well. Financials, probably to a lesser degree, also contributed there. The top three non-performing categories were—really, they were more breakeven than non-performing: electronics, communications and some industrial materials.

It was a good year for Permanent Portfolio in terms of, obviously, well behind equity markets but that's expected. When you look at our history in that fund, we generally try to capture, and depending on the period of measurement, which you can see in your data sheets, we capture a significant portion of equity performance with a much lower beta to the stock and bond markets, so it's a lower volatility, more diversified product that's designed to offset or hedge against typical stock and bond only risk.

One of the negatives with a diversified strategy like that is when you have a run like last year in a certain asset class, you're never going to outperform it unless you're doing something that you shouldn't be doing, and so it's no surprise that our performance probably stacked up where it was. The positive is that if you get one or more asset classes that has significant downtrends, the losses are mitigated. And we continue to manage that strategy the same way that we always have, with a long-term focus, a multi-year focus and a strategic overlay of different assets all the time and adjusted quarterly based on what we see out in the marketplace.

The Aggressive Growth Portfolio, the Stock Fund, was up 21.21% for the calendar year, and I would say that probably very similar drivers. Obviously, the stock market had a good year, regardless of which index you're looking at. There was a lot of good performance across the equity sector, and I think our portfolio reflected that. I would probably say, again, just like the equity drivers in Permanent Portfolio, the primary drivers were entertainment and leisure, the manufacturing, the industrials, the transports, to a lesser degree financials, and probably the same or similar non-performers, or at least breakeven performers.

That portfolio is designed to be an all-cap equity driver. It's designed for equity investors. Again, it has a long-term focus and we try to minimize turnover. We try to make longer-term investing decisions and not overtrade the portfolio. We don't necessarily weight it to the S&P or any other index in terms of how we apply investments. There are funds out there that will look at the S&P weightings and will sort of align their portfolios in light of those and tweak them a little bit here and a little bit there. We don't manage it that way. While we look to beat that index, we pay attention to our own weightings and our own sectors and our own names and not necessarily weight them in any relationship to the actual index themselves. I think that gives us a little differentiation in the marketplace as to how that fund can be used vis-a-vis the overall stock market.

The Versatile Bond Portfolio was up 71 basis points for the year, and I think it reflected the combination of rising interest rates and coupled with the types of investments that we are primarily in the portfolio remains mostly in investment grade bonds. At December 31, we were approximately 75% in investment grade securities, with an average duration in that portfolio of 3.88 and an effective duration of 3.74.

Again, all of this stuff is in the data sheets, but we remain committed to our strategy of staying relatively short and focusing on high-grade investment grade credits and balance sheets in the belief that the interest rate picture is going to continue to be volatile, and likely volatile on the upside, and so we wanted to, and have for a while, maintain a fairly conservative stance with respect to balance sheets and duration.

We've probably given up a little bit on the basis points in light of flexibility, and while that potentially maybe hurt us in the recent past it may turn out to be an advantage going forward. When you look at the return, you look at rising market rates, and the Fed's actions over the last year, it makes sense with a shorter duration.

The final portfolio, the Short-Term Treasury Portfolio, had a return of 12 basis points, and I think that reflects its average duration of roughly 0.5 or half a year, and in an interest rate environment that was rising all year, so the positive there is that shorter-term Treasuries are going up and the portfolio is able to take advantage of that. The portfolio continues to provide a place for very conservative investing, a place to park capital and earn short-term Treasury yields while you're looking for your next opportunity, or for the ultra-conservative investor just to have some in Treasuries.

All four of our portfolios continue to perform as expected. There's been no changes to our thinking, to our strategy, to our procedures, and anything like that, so to speak. Where does that position us going forward? I guess, speaking of the two bond funds, I think probably I've adequately spoken about those. I think being short, being high-quality, I think investors are going to begin to get rid of high-risk, fixed income securities over time, especially as interest rates go up. We've been saying this for a while, and our timing may have been a little off but I think we have the long-term concept right.

I think being high-quality and being short is where you want to be. You want to be able to ride up the yield curve as it goes up, and again focus on minimizing what you lose in a volatile market environment, which we may experience. I think investors, we tend to do this in our shop a lot, and I think investors, some do, some don't, and I don't think many do sometimes, where focusing on keeping what you're making along the way is as important as making it.

We're a firm that has traditionally been very conservative, and I would say that probably given our strategies, diversification is in our DNA even when we're in single asset class strategies, and certainly in Permanent Portfolio, and that conservatism can hurt us on the basis points or on our return periodically. But we think in the long-term, given the environment we're in right now, it's an advantage and it's something that one would want to consider in this environment.

With respect to equities, we're not down on equities and I think, to some degree, the current environment, at least the last few days, if it continues for a while may present some opportunities. Volatility a lot of times does present opportunities, where you're looking at names, you get into some names you've been wanting to get into for a while, but they haven't been priced right, or other circumstances may have come into play, so the volatility is decent.

I think when you look at the equity market, again in the short-term I think it's going to be volatile, and you look at a day like today where the close happened right before we got on this call and there was a tremendous amount of movement within, but we ended up the day not much different than when we started. You look at a day like yesterday, where you had roughly a 1,000-point range in trading, and obviously on Monday it was kind of flat to negative for a while and then it fell off a cliff, so much more volatility so far this year and I expect that to continue in the short-term. Having said that, when you look at equities over the long-term, at the moment you have very good corporate earnings, you have a tax plan that is likely going to—even if business remains the same, you're going to potentially have a lot more percentage point drop to the bottom line in terms of profits due to the lower tax rates. You also have expanded and increased rates of depreciation that I expect a lot of firms are going to take advantage of over the next couple of years or so, which will further decrease taxable income and really benefit the long-term perspectives of the businesses and probably cash from operations once you make the expenditures to buy the capital assets.

To the extent capex improves, that's going to be good for the economy, it's going to be good for a lot of industries and a lot of places. You have corporate earnings, you have a yield curve that does not look like it's inverting yet. You have an economy that appears to be gaining strength in the US as well as abroad. You have global interest rates increasing as well as US rates, so for the first time in a while interest rates are moving in tandem and the central banks may be beginning to move in tandem, that's also a positive. That also likely will put pressure on the dollar and potentially weaken the dollar through market forces versus QE, which is very different, and that will allow for US companies to be aggressive in overseas expansion and productive in non-US environments as well.

The economic picture is conducive for stocks in the long-term, and so I think money can be made, although I do think you do have to be more careful. With a gradual melt up like we had the last couple of years, and really for the better part of the last several years, indexing was a no-brainer.

I think that that scenario probably ended on January 1st, at least in the short-term here, and I think the volatility is going to really impact that. So, if you're long-term invested that still may work but get ready for a bumpy ride and for shorter-term investors or investors that may like the opportunity of earning more in a volatile market versus just an index, I think it presents a lot of opportunity.

Like any asset class, though, there are risks, and so the risks, I think, for the stock market right now, and they are real, I think the positives outweigh the negatives, to a degree, but these risks are real. There's nothing that says they can't expand and outweigh the positives at some point, but I would say the rate and pace of interest rate increases, inflation and probably geopolitical and political and military risk to the global economy and the US economy, I think those are probably the big three situations that could derail the story.

Obviously, rising interest rates, if they're gradual, it's a natural byproduct of economic growth, and so far the interest rates we've seen, for the most part, have been gradual. There have been some bumps, but for the most part I would still consider these gradual increases in light of where economic growth is going. If the pace increases, if the Fed perceives that there's too much inflationary pressure, and I think one of the reasons for the sell-offs last week was the rise in rates. That was due in part caused by the wage inflation number, which was a lot higher than I think people expected, and a general feeling that inflation is going to go up in this sort of economy driven by growth and that could cause the Fed to have to move quicker, or market rates to go up too quickly and that could derail the economy and the economic growth that we have here, and to the extent this replicates itself around the world it would be a similar thing.

The other thing would be things like trade and trade agreements not being renewed, or being poorly renewed, or renegotiated, geopolitical risks, skirmishes around the world between countries, disruption, unrest, etc. Those things, I mean, at this point you have a lot of things going right in a lot of places, and there's always the fear that something could disrupt that, and these are the types of things that over the long-term would cause disruption. If Brexit isn't handled properly and causes dysfunction on the European continent, for example, the ability to not do business the way it's been done in the last 20 years in the short-term would really mess everybody up, and that could further mess up economic growth there and that would translate to other parts of the world. To the extent the dollar doesn't do what we think it does and upends emerging markets instead of helps them, I think that's also a risk.

I think this is an environment, given the volatility, given the mostly positive bent on growth, but there are risks out there and investors should pay attention. Our Permanent Portfolio, I think, was built for times like this. In fact, it was created during an inflationary environment and a lot of the assets that we invest in are growth-oriented assets, and so we would expect to do decently in a situation like this, and we tend to do better in volatile markets versus one directional markets. So, I think that's something that we're well-positioned for.

When you look at the various asset classes within the portfolio, I think our equity exposure is weighted towards growth, high beta type stocks that are weighted towards growth, big financials, the same things that I mentioned earlier—transports, industrials, financials, materials, natural resources, I think are all things, as well as traditional growth stocks. I think biotech is potentially poised for an upturn and technology, providing companies still produce profits, I think are still legitimate places to be.

On the commodity side of things, I do believe that we probably bottomed out in the commodity cycle within the last year or two. While it remains to see what kind of an upside we have in this cycle, I think when you look at the growing global growth, which enhances demand, the potentially weaker dollar caused by rising global interest rates, and if you do get benign political and military and trade risk, then you probably have an upswing for commodities, and that would be a longer-term cycle and I think that benefits us.

Real estate investment trusts and real estate have had a tough time lately on rising interest rates, but assuming interest rates rise gradually real estate tends to benefit as well in a growth economy because you can write new leases at higher rates and you need residential and office space and warehousing space and all this stuff to actually transact business, so cash flows increase, dividends increase, etc. From a total return standpoint, the sell-off in REITs lately has been interesting.

And always we have exposure to precious metals, gold and silver in the extent that inflation, and there is a reactionary knee-jerk trade that happens in the marketplace a lot where interest rates go up, people sell metals, people sell gold because it doesn't produce income and the opportunity it costs to own it and etc., etc.

The problem with that argument is you probably want to diversify your inflationary risk, if you want to call it that, with bonds and gold because both yields go up and shorter-term bonds with increasing yields and gold, because the things that drive an increase in the yields of bonds would also drive an increase in the value of gold. As the unit value of the dollar declines, the value of gold goes up against that dollar and you preserve your purchasing power. So, it's part of our wealth building and maintaining strategy and we continue to expect it to be going forward along the lines that we've always used it.

Then, finally our Swiss sovereign debt, those investments have worked very well for us over the last several years, because whether it was the currency or the bonds, people have invested in them, driven down yields, in some cases into negative yields. For us, we bought them long before they went negative, so we've been able to benefit, to a certain degree, from that as well, and that gives you some international fixed income exposure on the sovereign side that helps to offset what's going on in the United States. We also do some investment grade corporates that are non-US as well.

So, I think overall we're well-positioned for this environment, and if you look at our historical results, Permanent Portfolio has been in operation since 1982. We've lived through many, many different markets and market variants and we've produced a return that has beat inflation, as measured by the 90-day Treasury bill over our 36-year history. I think for times like this we represent something that would be useful in many client portfolios.

If you look at our longer-term performance over the last 15 years, we returned approximately 7.5% on a stock market that's measured by the S&P of 10%. You're looking at three quarters of stock market performance over the last 15 years, with probably one-third to half of the volatility. Similarly, if you look at us since 1982, we had a return of a little more than 6% on an equity performance of about 11.5%, so a little more than 50% equity returns, again with a lot less volatility and I think an inflation rate over that time as measured by the 3-month Treasury bill of approximately a little under 4%, so you're looking at something like 200 plus basis points beating inflation over the history of the fund. Obviously, some years it's better than others, but that's what you're getting.

I think for any investor as a diversifier, as a part of a portfolio to say over that history getting a 6% yield, beating inflation by a couple percentage points as a portion of a portfolio, it would seem to be desirable for many portfolios at some level. Obviously, it may not be the only strategy one uses, but at some level it is useful, and we've always positioned it that way, we believe in it.

With that, I'll take questions. Those are my remarks and I'll stay as long as there are questions out there to answer, so thank you.

Jordan Clopton – Director of Institutional Sales
Thank you, Michael. Again, if anybody has any questions, just hit the hand icon or use the little text box and shoot me a question. We'll give it a second and see if anybody has any questions.

We're not getting any questions at the moment, but, Michael, just real quick, we talked about volatility, inflation, your main three worries, sort of three legs of the stool. Can you speak a little bit more to the environment that Permanent Portfolio Fund has seen and why it's maybe a good tool in terms of lowering correlation and managing beta and so forth?

Michael J. Cuggino – President and Portfolio Manager
Well, I think that the benefits, or how it achieves that, the lower beta and managing correlations is that correlations are constantly changing among asset classes and people are trading various things off each other all the time, so the concept of correlation, or lack of, is not set in stone. I think what gives the portfolio the ability that it has, and I would make this argument for a lot of non-correlated strategies, which in the last 20 years have proliferated. But the fact that we have dedicated exposure all the time to certain asset classes, guarantees that we're going to be in certain places all the time, and that allows the non-correlated features of our portfolio's asset classes to really be themselves in multiple market environments.

So, in the shorter-term anything can correlate with each other or not, and we've seen positives and negatives of that sort of concept throughout time. If you're constantly dedicated to asset classes you're going to have periods where, and it's probably the majority of the time, where the assets behave like the DNA that they possess, so that will hold true in a longer-term investment horizon with correlation and lack of correlation.

I think our long-term strategy, the fact that we have a strategic overlay versus a pure tactical moving in and out of markets and sectors and asset classes, there's room for that in strategies, don't get me wrong, but it's not us. We're more a strategic, permanent kind of thing, hence the name, and we obviously take advantage of opportunities underneath that overlay, but we are going to always have a position in gold. We are always going to have a position in bonds. We're always going to have a position in two sleeves of equities. And while that may ebb and flow to a degree, we're always going to be there.

I think the mistake people make in our portfolio sometimes is they'll overweight their review of us in one asset class and say, well, you guys own bonds and I don't really want to be in bonds right now. Okay, fine, that's a tactical decision, but our portfolio is not designed to be pure tactical, and so you want bonds in a diversified fund because what if you're wrong and what if you need them? What if you do experience the recession you didn't expect, or the deflation you didn't expect, or the balance sheet crisis you didn't expect, then had you been purely tactical you would have missed the move.

By being strategic and managing that strategic overlay, you're in the asset class to hedge but also take advantage of opportunity, and you're there all of the time. I've used this term quite a bit over the years and I think one of the things our portfolio does is it minimizes portfolio manager risk, and I would put myself as a potential risk factor like I would any portfolio manager out there. We can all be wrong and are wrong a lot, so by minimizing portfolio manager risk you help to maintain and potentially profit from the strategy.

Jordan Clopton – Director of Institutional Sales
Okay. To your earlier point, I would just say, yes, you have to look at Permanent Portfolio holistically, not analyze each individual slice of the portfolio, but the end result here is creating something that can help, I guess, smooth things out, give you exposure to inflation-sensitive asset classes, can help lower that correlation to the overall market. So, if you are overweight equities, it you are overweight bonds, which many people may be considering the last three, four, five years, our fund is a good way to help diversify away some of the risks that were all over the headlines this week and the week prior, correct?

Michael J. Cuggino – President and Portfolio Manager
Well, keep in mind that no one name is going to singlehandedly drive our portfolio, or really any one asset class, because we're so diversified. So, in a situation like an individual stock, this gets back to my previous point, like you're saying, sometimes people will cite one item, they'll cherry pick an item in the portfolio and say that that bothers them, or it makes them happy. It can go both ways. I tend to counsel people in either situation, look, you have to look at this portfolio as a whole; you don't cherry pick asset classes or make a determination based on one, it's designed as a whole to be at its most effective.

So, getting back to individual securities, I think news is happening every day with many companies and you're forced to assess that news in light of your strategy, in light of your thinking, in light of valuations, etc., and your ability to game plan out how things might go.

That's one of the things that we, as portfolio managers, Derek and I, have to assess in light of factors and continue to assess. Like I said, that process goes on for all the names in our portfolio, to the extent we need to, and it's ongoing, and when we feel that it's appropriate to make changes, we make them.

Jordan Clopton – Director of Institutional Sales
Do we have any other questions? Well, I think that about does it. Michael, thank you so much for your time. Thanks, everyone, for joining us today. If you need any material, just email me and we'll get it out to you. Again, thanks for the time, and take care.

Michael J. Cuggino – President and Portfolio Manager
Thank you, Jordan. Thanks, everybody, for your time and your interest and your investment. Good luck in the early days of 2018 here, so take care.

Please click here for a current Prospectus.

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. Citigroup 3-Month U.S. Treasury Bill Index tracks the performance of U.S. Treasury bills with a remaining maturity of three months. The CBOE Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. 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.

Correlation is a statistical measure of how two securities move in relation to each other. Cost basis is the original price of an asset, such as stocks, bonds, mutual funds, property or equipment. 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. 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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