

Euro Pacific Capital

Investment Update for 2011 & 2012 Outlook



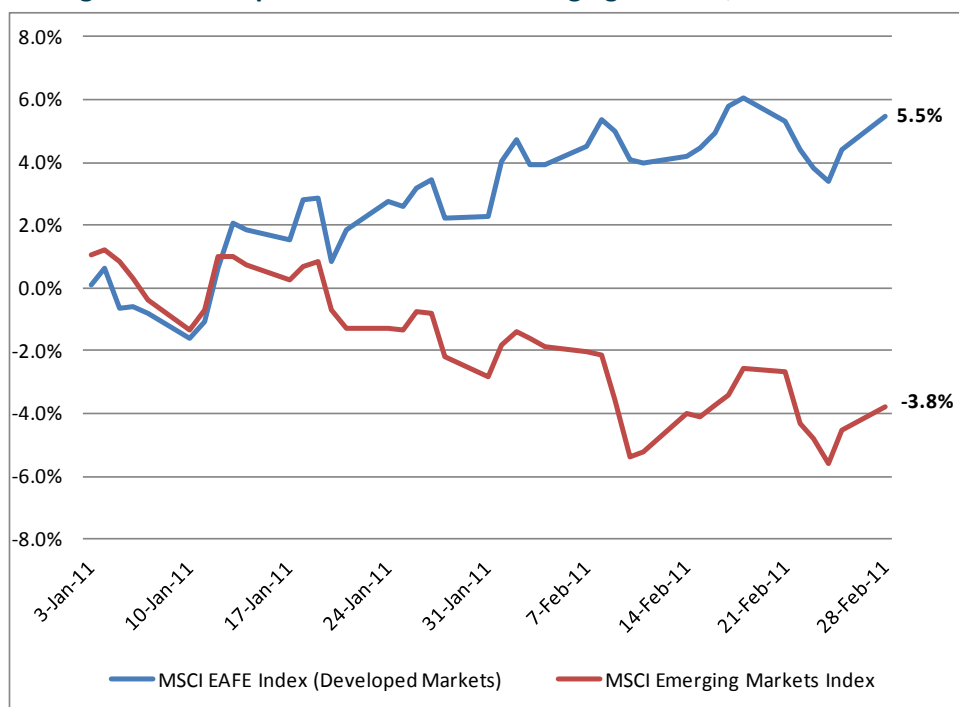
Summary

To say that markets have been volatile in 2011 is an understatement. Uncertainty regarding the outcome of the ongoing European debt crisis continues to be the primary cause of market gyrations, yet other factors have come to bear as well, including the Arab Spring, the earthquake and reactor meltdown in Japan, monetary tightening and inflation in China, sovereign debt downgrades, and devastating floods in Thailand. In our opinion, all of these events have driven volatility, but not the overall market trend. We believe the overall market trend has been led by a push-pull relationship between the private sector trying to deleverage and the world government maintaining ultra-easy monetary and fiscal policy. While it appears the markets mistakenly believed ultra easy monetary policy in 2009 would drive us to a sustainable recovery in real economic growth, deteriorating numbers in July of this year and onward have begun to dash hopes for an easy way out. Sentiment has turned increasingly sour into the close of the year, as a myriad of headlines drives 1% swings in the world's most liquid markets on a regular basis. These moves are often exacerbated by high frequency trading firms that now make up over 70% of all volume on US exchanges and close to 40% in Europe (*Aite Group Survey, Bank of England, 2011*). Most analysts are calling for a further market correction and urge clients to beef up exposure to cash and bonds. Yet for value-oriented, long-term investors, we don't believe the picture is quite as grim as pundits would have us believe. And, it's important to point out; typical investments that may be effective at fighting deflation and a market collapse are likely to be ineffective in today's economic environment given the likelihood of default in a recessionary scenario where rates are already at zero. A much better strategy, in our opinion, is to maintain an appropriate mix of bonds, stocks, and precious metals, in a basket of the highest quality currencies.

2011 in Review

The year opened with a strong performance in stock markets, and with many calling for a further recovery in economic growth. Rather than talk of recession, pundits talked of the next hiking cycle in interest rates needed to prevent inflation and argued one should buy stocks in Europe and the US, where increases in interest rates would be the last to occur and to sell stocks in Asia where it would be the first. A large disconnect in the performance between emerging market stocks and developed market stocks followed. Volatility through February came mainly from the Arab Spring protests which incited the resignation of President Mubarak of Egypt and the Libyan Civil War.

Figure 1. Developed Markets Versus Emerging Markets, Jan – Feb 2011



Source: Bloomberg, 2011

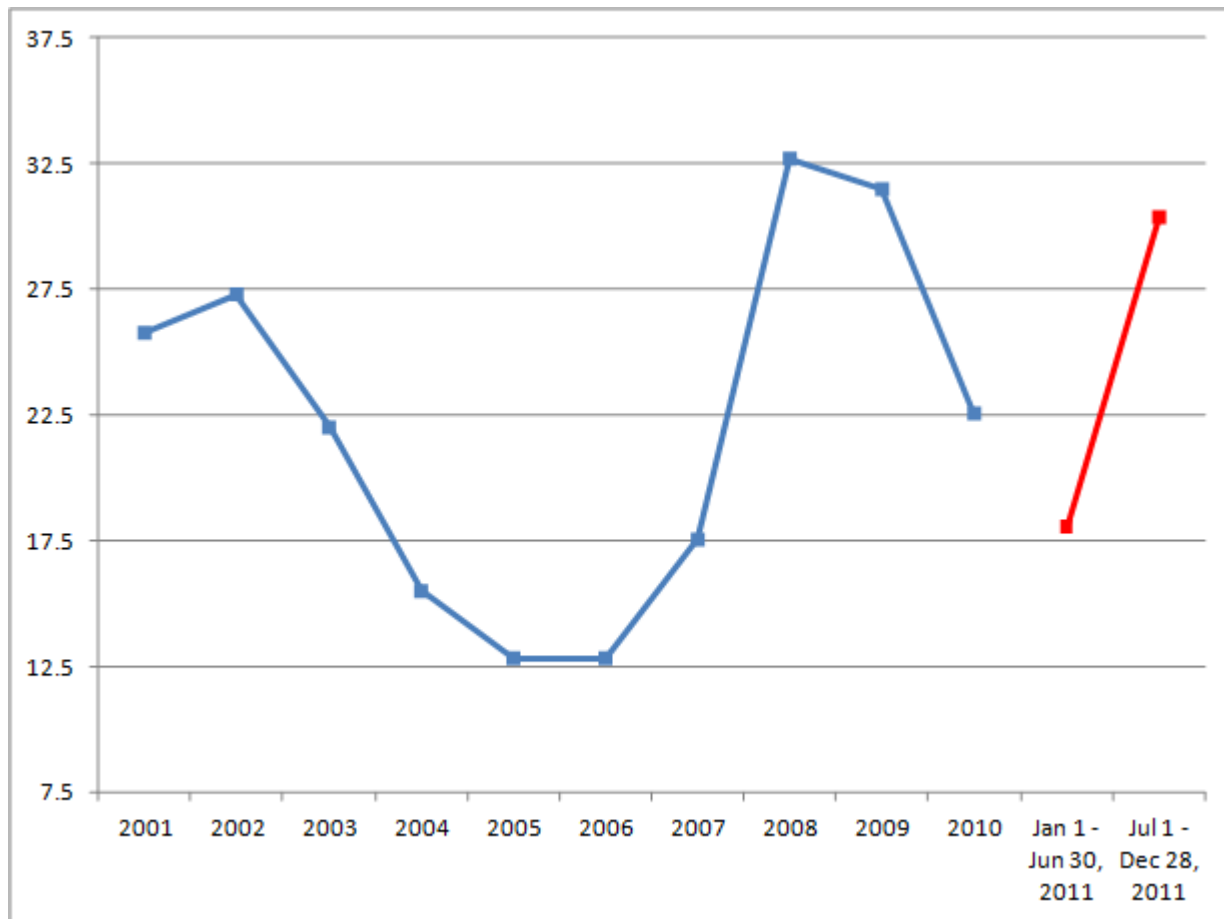
*The MSCI EAFE Index is a free-float weighted equity index that covers equities of the developed markets in Europe, Australasia, Israel and the Far East. The MSCI Emerging Markets Index is a free-float weighted equity index that covers equities of the emerging markets. Past performance is no guarantee of future results.

Volatility increased further in March when a magnitude 9.0 earthquake hit Japan, killing thousands. A tidal wave hit shore and cut out the generators at the Fukushima nuclear power plant, causing a meltdown with effects that are still being felt today. The Japanese stock market lost 19% in 5 business days, but many called this a buying opportunity and the market rallied 13% to regain $\frac{1}{2}$ of its loss by the end of March (*Bloomberg, 2011*). Other markets recovered almost all of their losses during the rally that ensued in the second half of March.

With investors believing the Europeans had finally turned a corner on their sovereign debt problems, the market rallied further in April to hit the year's high in early May. The S&P 500 at that point was up 8.4% on the year (*Bloomberg, 2011*). Then a brief selloff of stocks came in June as some measures of economic growth began to sour. But economists were divided into two camps, one that believed the slowdown was a result of temporary supply shocks driven by the natural disaster in Japan, the other believing that the recent trend was here to stay. The optimists won out and markets rallied to recover most of their losses in June.

Stock market performance since July has been much more difficult. The hope that economic data was only temporarily impacted due to the Japanese earthquake grew less likely as time went on. In light of the fact that probability for slower economic growth was possible, the threat of a tightening cycle in China and a debt crisis in Europe grew much more serious for markets. And a downgrade of US debt from its AAA status and a follow on lack of additional stimulus from the Fed at its September Federal Open Market Committee meeting sent markets lower still. Since then, markets haven't trended one direction or the other but volatility has been significant as stocks swing up and down to each and every headline related to the debt crisis in the Eurozone. From figure 2, one can see that volatility in the second half of 2011 has picked up significantly compared to the first half of 2011, and is near record levels since 2001.

Figure 2. CBOE SPX Volatility Index*, Daily Average of Each Year



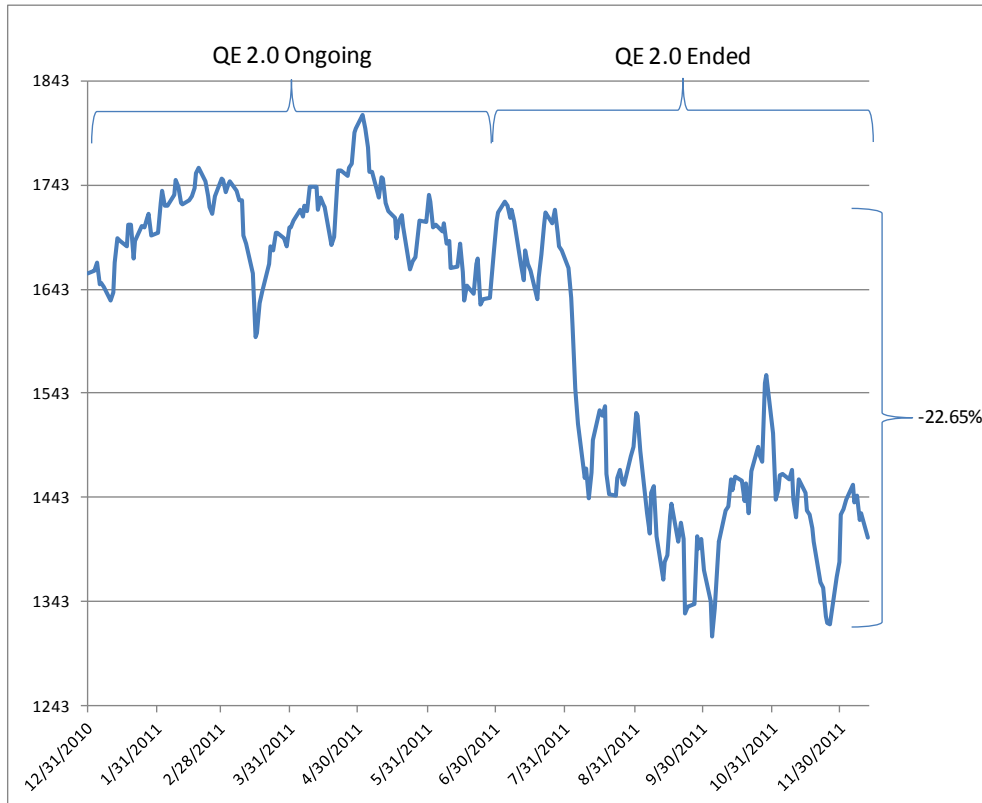
Source: Bloomberg, 2011

* The CBOE Volatility Index reflects a market estimate of future volatility, based on the weighted average of the implied volatilities of a wide range of stock options.

*The chart above depicts the average of the daily value of the VIX for each period represented on the horizontal axis. The "2H11" label at the end of the chart demonstrates that volatility in the second half of 2011 has been much higher than that of the daily average of the year overall, labeled "2011." Past performance is no guarantee of future results.

There's been a huge amount of data to process in 2011, and it's been difficult for some market participants to assimilate it all. Taking a 10,000 mile up top-down view of the current climate helps to explain the picture:

Figure 3. MSCI EAFE Index Price in USD, 2011

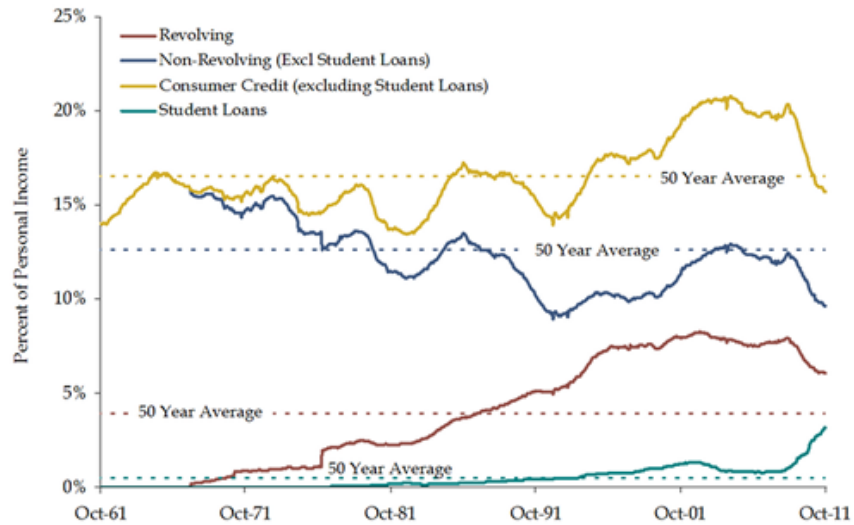


Source: Bloomberg, 2011

**The MSCI EAFE Index is a free-float weighted equity index that covers equities of the developed markets in Europe, Australasia, Israel and the Far East. Past performance is no guarantee of future results.*

The market corrected mid-year, right as the second round of quantitative easing ended. The market fell further in August and September when it became increasingly likely that additional stimulus would not be immediately forthcoming. While an initial boost of easy money shocked markets back into growth for the past few years, it appears to have been unable to create sustainable real growth. It seems that it has, on the other hand created asset price inflation. In our opinion, the fundamental problem is that there is too much debt in the system. Yet, the system is unable to purge the excesses while governments run very large fiscal deficits and finance them with money printed by their central banks. The strategy of policy makers appears to be to ease the deleveraging pain by keeping real interest rates negative and by pushing more currency into the monetary system for some time to come. Negative real interest rates can lessen the burden on debtors, while increasing the stress on savers. The process appears to be running on schedule thus far and when it ends and consumers begin to borrow and spend again, is difficult to predict.

Figure 4. Total US Consumer Credit
Consumer Credit



ECONOMICDATA

Source: Economic Data, 2011. Past performance is no guarantee of future results.

While markets were incredibly volatile in 2011, the overall performance for asset classes for the year can be explained by slower growth and lower inflation expectations, likely due to the increasing realization that easy monetary and fiscal policy isn't creating sustainable growth.

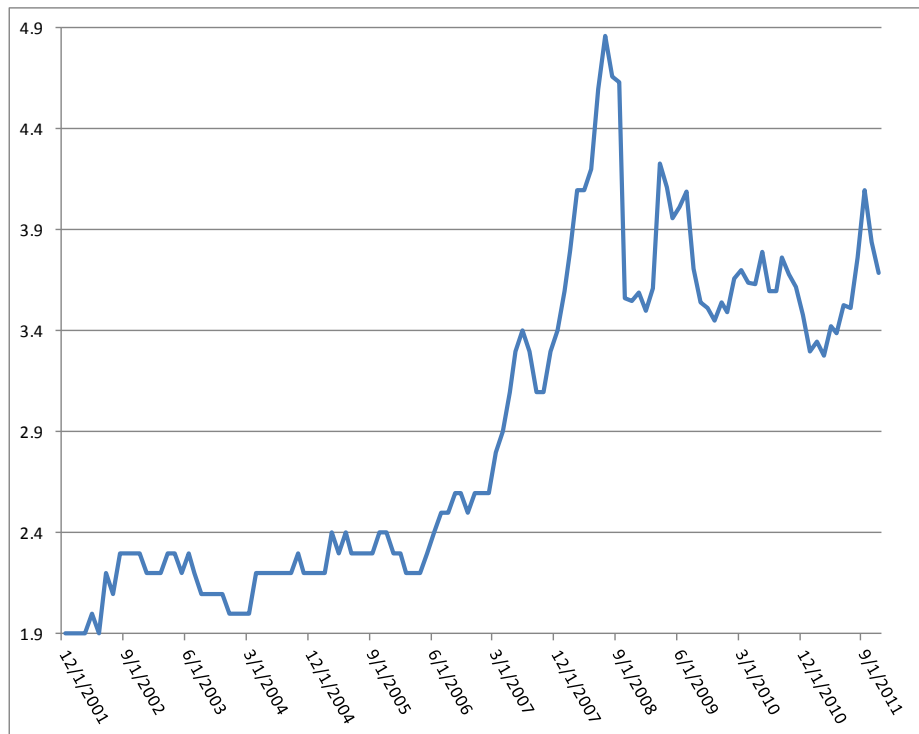
Outlook for 2012

Recognizing what has happened in 2011 and projecting that into 2012 is a difficult exercise given there are so many risks and uncertainties. However, we have some basic views on what could happen and some possible strategies to offer clients depending on where they are with respect to their investing goals.

Stated plainly, we don't expect a stock market crash. On the other hand, we don't see a runaway stock market rally either. While we do see heightened volatility until a solution is found for the European debt crisis, we think aggressive stock market corrections will be met by equally aggressive market rallies, in short order. Impediments to long-term real economic growth are likely to persist while consumers deleverage and as long as governments seek to solve their problems with easy fiscal and monetary policy. However, we have to also understand that these policies can result in higher asset prices, regardless of the underlying economic fundamentals. As long as governments are willing to coordinate world-wide liquidity providing exercises, they will likely have the ability to kick the can down the road and avoid facing their fundamental problems for the immediate future.

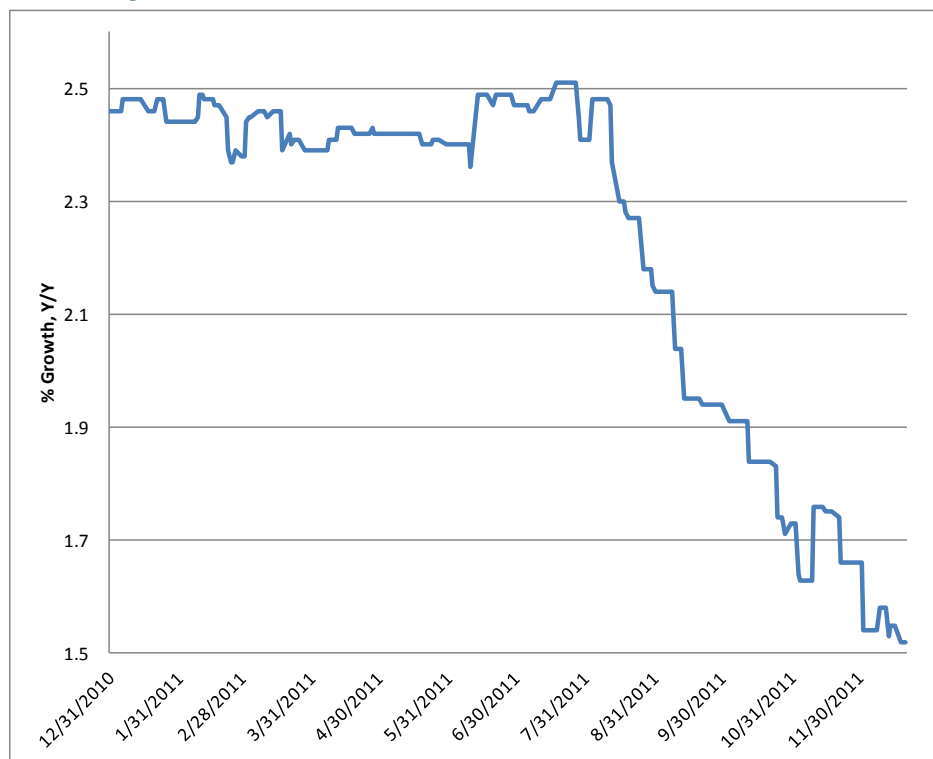
And, while we can certainly paint a gloomy picture with respect to economic growth prospects, it's important to point out that everyone else can too, and has. Right now there is an incredible amount of negative sentiment amongst investors. Short interest on the New York Stock Exchange is near record levels not seen since 2009 (*Bloomberg, 2011*). Further, retail investors have sold \$65 billion of equity mutual funds in 2011, more than the \$49 billion in buys in 2010, indicating retail investor sentiment is very negative this year (*Strategic Insight, 2011*). Economists have almost cut their 2012 real GDP growth estimates for the G10 in half over the course of 2011 (*Bloomberg, 2011*).

Figure 5. Short Interest on the New York Stock Exchange



Source: Bloomberg, 2011. Past performance is no guarantee of future results.

Figure 6. Consensus for Real GDP Growth for the G10 in 2012



Source: Bloomberg, 2011. Past performance is no guarantee of future results.

We also think it is likely that another round of quantitative easing will be coming from the Federal Reserve in 2012, which would be supportive of asset prices. This round won't necessarily be triggered by lower asset prices or sustained high unemployment. While those may be cited as the reasons, another round of quantitative easing could come simply as a way of financing the 2012 US deficit. In 2011, the Fed bought approximately \$720 billion of US Treasury securities (*Bloomberg, 2011*), and the government is expected to run a \$1.23 trillion deficit in 2011. In effect, the Fed financed 59% of the US deficit with money printed from thin air. We should expect more of the same moving forward, especially in an environment where private sector growth and consumption are retrenching. If another round of quantitative easing were to come, it would be a positive for commodities, stocks and foreign currencies, in our opinion.

Finally, while most pundits view the most recent summit of European leaders a failure due to the lack of a "bazooka" bail-out fund, the measures they did introduce seem likely to put a lid on solvency risk for some time. The fundamentals aren't fixed, but policy makers have bought themselves some time, in our opinion.

In our opinion, this all lends itself to a volatile, but nearly flat trend for stocks and bonds in 2012 where fundamentals don't yet support a run-up but where easy money will put a floor on assets over the short run. The situation remains volatile, and if things change significantly we'll need to reassess our strategy. However, aggressive dips in stock markets will likely represent buying opportunities. We tend to think bonds will underperform equities in 2012, given their dramatic outperformance this year. We also expect US stocks are set to underperform international stocks in 2012. Hopes are high that the US is immune from the troubles the world faces, yet in our opinion they are part of the cause. Further, while corporate profit margins have been hitting record highs, they have recently slowed and they've been the result of aggressive labor and salary reductions. Because US economic growth is approximately 70% dependent on the

consumer, this trend is unlikely to continue in 2012. Analysts will likely reduce their estimates to an equal level with their international peers.

Euro Pacific strategies remain underweight the Euro, Yen, Pound and Dollar. We seek to invest in securities that have minimal exposure to these regions both in our equity and bond portfolios. We continue to believe that by focusing on countries with the strongest fundamentals, we will outperform our peers over the long run. While they have also seen volatility in 2011, these regions are in a relatively better position with respect to the health of their economies.

Figure 7. Economic Fundamentals

	Country	Est. Real GDP 6 Yr Growth	2011 Est. Unemployment	2010 Federal Budget Surplus (Deficit) % GDP	Est. Public Debt as a % of GDP 2011	2 Yr Growth in Public Debt
Euro Pacific Focus	Norway	1.8%	3.5%	10.8%	45.0%	-9.0%
	Hong Kong SAR	4.4%	4.1%	-1.5%	15.0%	-61.0%
	Singapore	5.0%	2.1%	-2.2%	96.0%	-13.0%
	Switzerland	1.8%	4.1%	-1.0%	41.0%	0.0%
	China	9.8%	9.2%	-2.0%	18.0%	7.0%
	Brazil	4.3%	7.0%	NA	57.0%	-5.0%
	Australia	3.3%	4.8%	-5.0%	23.0%	2.0%
Mainstream Focus	Japan	1.9%	5.0%	-9.8%	202.0%	4.0%
	Spain	1.4%	19.3%	-9.2%	70.2%	59.7%
	United Kingdom	2.5%	8.3%	-11.4%	81.0%	19.0%
	France	2.0%	9.9%	-8.2%	90.0%	16.0%
	United States	2.6%	9.3%	-11.0%	64.0%	20.0%
	Average - Euro Pacific Focus Countries	4.3%	5.0%	-0.2%	42.1%	-11.3%
	Average - Typical International Fund Focus Countries	2.1%	10.4%	-9.9%	101.4%	23.7%
	Difference	2.3%	-5.4%	9.8%	-59.3%	-35.0%

Source: Bloomberg, 2011. Past performance is no guarantee of future results.

Target Portfolio 1 – Defensive Strategy

While we expect equities to reverse their underperformance in 2012, for investors looking for less volatility or looking to remain tactically defensive to average into stocks during downswings, the below allocation is a possible strategy. The EuroPac International Bond Fund can allow investors to earn a yield in a basket of what we believe are the highest quality currencies outside of the Dollar, and holds approximately 70% of the portfolio in what we consider high quality, short term government debt. We seek to minimize interest rate risk with shorter duration positions. The positions in the bond fund presently have an average duration of 1.1. For the equity exposure, our objective is to build in a robust yield in the short term as market uncertainties sort themselves out. The EuroPac International Value Fund and the EP Latin American Fund both target yields significantly higher than their peer group averages. Toward mid-2012 and into the close of the year, we expect a recovery in Asian stocks as problems with China and the property sector begin to flush themselves out and as easier monetary policies begin to have a positive effect on the regions stock markets, so this strategy would remain underweight these allocations for now but look to increase the weightings toward the middle of 2012.

EuroPac International Bond Fund	EPIBX	60%
EuroPac International Value Fund	EPIVX	20%
EP Latin America Fund	EPLAX	10%
EP China Fund	EPHCX	5%
EP Asia Small Companies Fund	EPASX	5%

Target Portfolio 2 – Balanced Strategy

This allocation seeks to provide a balanced stance, where investors can take on slightly more risk seeking to earn a higher yield and potentially outperform the defensive portfolio given we expect equities to reverse their underperformance to bonds in 2012. The allocation to the EuroPac International Bond Fund should be sufficient to leave cash available to average further into stocks on market dips, yet also positions investors outside the Dollar with some potential yield. For the equity allocation, the goal is to maintain the same mix amongst the equity funds in order to beef up the overall potential yield of the portfolio until more certainty emerges with respect to the European debt crisis and world growth concerns. We also feel a small allocation to the EuroPac Hard asset fund will provide investors with exposure to hard assets, which have the potential to perform if we see another round of quantitative easing in 2012.

EuroPac International Bond Fund	EPIBX	30%
EuroPac International Value Fund	EPIVX	40%
EP Latin America Fund	EPLAX	10%
EuroPac Hard Asset Fund	EPHAX	10%
EP China Fund	EPHCX	5%
EP Asia Small Companies Fund	EPASX	5%

Target Portfolio 3 – Aggressive Strategy

In our opinion, the aggressive strategy has the potential to outperform the others strategies in 2012, in exchange for a higher level of volatility and risk. By maintaining a higher allocation to equities, investors will possibly benefit from a higher yield and potential for more capital appreciation in 2012 if stocks reverse their underperformance to bonds.

EuroPac International Bond Fund	EPIBX	0%
EuroPac International Value Fund	EPIVX	55%
EP Latin America Fund	EPLAX	20%
EuroPac Hard Asset Fund	EPHAX	10%
EP Asia Small Companies Fund	EPASX	10%
EP China Fund	EPHCX	5%

Investors should carefully consider the information about Euro Pacific Funds, including investment objectives, risks, and charges and expenses, which can be found in the Euro Pacific Funds' prospectus or summary prospectus. Copies of the prospectus or summary prospectus are available from your registered representative, at the Fund's website, www.europacificfunds.com, or by calling 1 888 558 5851. You should read the prospectus or summary prospectus carefully before investing or sending funds.

Foreign investments present additional risk due to economic and political factors, government regulations, differences in accounting standards and other factors. In addition, the value of securities can change significantly when foreign currencies strengthen or weaken relative to the U.S. dollar, or in the case of hedging positions that the U.S. dollar will decline relative to the currency being hedged. Currency rates may fluctuate significantly over short periods of time due to controls or political developments and may result in reduced returns. Investments in emerging markets involve even greater risks. The Funds will be more susceptible to the economic, market, political, regulatory, local risks and potential natural disasters of the European and Pacific Rim regions than a fund that is more geographically diversified. The economies of Latin American countries are particularly sensitive to fluctuations in commodity prices, currencies and global demand for commodities. Investments closely tied to the Latin American region are generally characterized by high interest, inflation, and unemployment rates and may be more volatile.

Small, and mid cap stocks are subject to substantial risks such as market, business, size volatility, management experience, product diversification, financial resource, competitive strength, liquidity, and potential to fall out of favor that may cause their prices to fluctuate over time, sometimes rapidly and unpredictably. The prices of fixed income securities respond to economic developments, particularly interest rate changes, as well as to perceptions about the creditworthiness of individual issuers, including governments. Generally, fixed income securities decrease in value if interest rates rise and increase in value if interest rates fall, with lower rated securities more volatile than higher rated securities.

The Fund may be susceptible to government regulation, impacting hard asset sectors (such as the precious metals, natural resources, and real estate sectors). Precious metals and natural resources securities are at times volatile and there may be sharp fluctuations in prices, even during periods of rising prices. To the extent the Funds use futures, swaps, and other derivatives, it is exposed to additional volatility and potential losses resulting from leverage. The use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid, and difficult to value. The Funds may be subject to greater risks than a fund whose portfolio has exposure to a broader range of sectors.

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