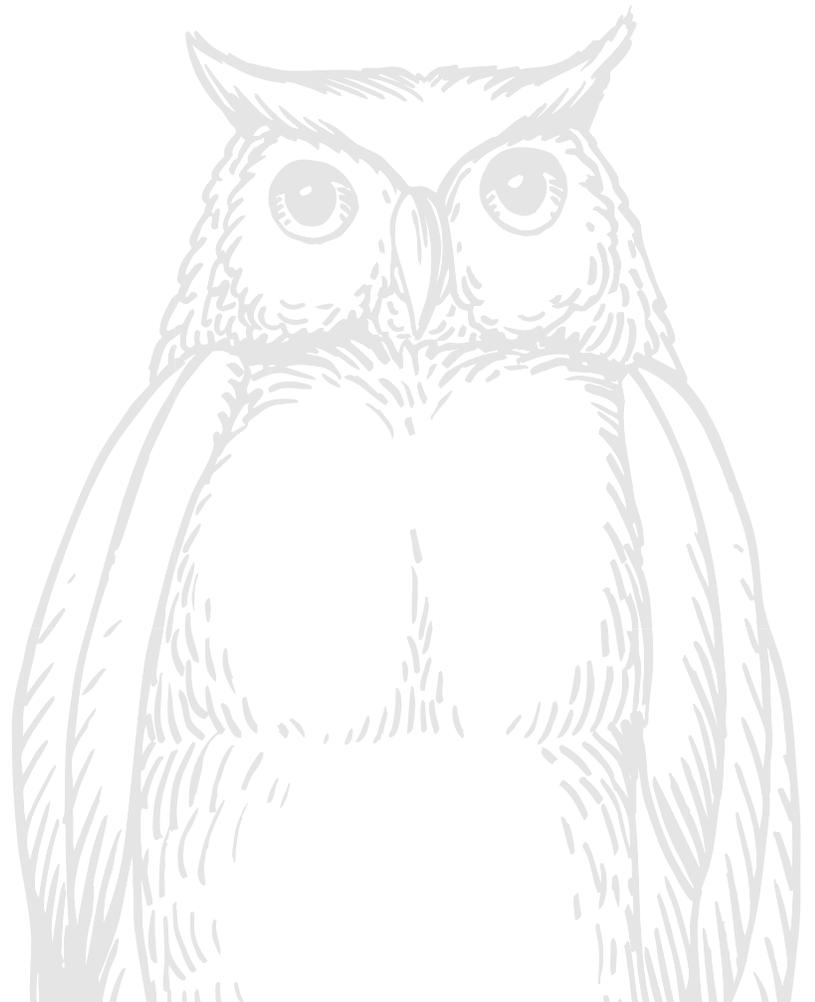




WHITE PAPER

MERK INVESTMENTS LLC® | RESEARCH | JUNE 2011

U.S. INVESTORS OVEREXPOSED TO U.S. DOLLAR RISK?



MERK[®] **FUNDS**
THE AUTHORITY ON CURRENCIES™

INTRODUCTION

This white paper analyzes the extent to which U.S. investors, on aggregate, are inherently exposed to the currency risk of the U.S. dollar via their financial asset holdings. We first outline recent trends in the value of the U.S. dollar, showing that the currency has experienced significant deterioration in value, and highlight developments that may continue to underpin ongoing weakness in the currency. Next, we describe why a weak currency matters to investors and consumers alike, as it may cause deterioration in purchasing power and lower relative living standards. We then research the aggregate financial holdings owned by the U.S. private sector, as reported by the Federal Reserve Statistics Department. We find that on aggregate, nearly 90% of the U.S. personal sector's financial assets leave investors susceptible to U.S. dollar risks.

U.S. DOLLAR DECLINE

The U.S. dollar has experienced significant weakness over recent years. We believe there are many factors that have contributed to this weakness, and in our opinion many of these factors have yet to fully play out, meaning there is a risk the U.S. dollar experiences ongoing deterioration for an extended period of time. U.S. investors may want to take this possibility into consideration when assessing the U.S. dollar risk inherent in their investment portfolios. As will be outlined in more detail within this report, our analysis into the aggregate financial asset holdings of the U.S. personal sector finds that the vast majority of investor's financial assets are denominated in U.S. dollars and as a result, significant U.S. dollar risk exposure is evident.

For the one-year period ended April 2011, the U.S. dollar declined 10.91%, declined 7.71% year to date, and declined 13.81% over the previous 2 years.¹ These performance numbers are based on the U.S. Dollar Index, a trade-weighted basket of currencies that was established in the 1970's. If we look at international currency performance relative to the dollar, an even clearer picture emerges²:

Currency Returns through April, 2011					
"G10" Currencies	1 Year	2 Year	Asian Currencies:	1 Year	2 Year
Swiss Franc	24.53%	31.80%	Singapore Dollar	11.95%	20.97%
Swedish Krona	20.03%	33.20%	Malaysian Ringgit	7.52%	20.20%
Australian Dollar	18.70%	51.20%	Chinese Renminbi	5.13%	5.06%
Japanese Yen	15.59%	21.48%	South Korean Won	3.43%	19.73%
Norwegian Krone	12.48%	24.92%	Indian Rupee	0.33%	13.28%
New Zealand Dollar	11.40%	43.29%			
Euro	11.38%	11.92%	Precious Metals:	1 Year	2 Year
British Pound	9.38%	12.96%	Gold	32.63%	76.05%
Canadian Dollar	7.70%	26.18%			

The table illustrates the fact that the U.S. dollar has experienced significant loss in value relative to many currencies. Moreover, there is a very real risk that this weakness continues. As a result, investors may wish to consider taking this risk into consideration when assessing their investment portfolio allocations.

¹ Source: Bloomberg. Calculations based on the U.S. Dollar Index (USDX)

² We include gold in the analysis because we believe it is the ultimate hard currency; relative to fiat currencies, gold cannot simply be printed, therefore it is very hard to influence the supply of gold, meaning gold cannot be as easily devalued the same way fiat currencies can – gold is not as susceptible to the whims of central bank monetary policies.

We consider there to be a plethora of reasons why the U.S. dollar has experienced such price weakness recently – from the current account deficit, to the easy money approach taken by the Federal Reserve (Fed), to the relative deterioration of the U.S. fiscal situation, in comparison to international counterparts.³

In our opinion, the present divergence in international monetary policies are implicitly weakening the U.S. dollar and causing inflationary pressures to mount. While many international central banks are tightening – the most notable recent development being the European Central Bank’s decision to raise interest rates – the U.S. Federal Reserve (Fed) continues to ease via it’s quantitative easing policies (QE2). Consider the following: when the Fed purchases U.S. Treasuries, it may be artificially overvaluing those same instruments by driving down yields. As a result, rational investors are evermore incentivized to look abroad for less manipulated, higher rates of return, and sell the dollar. Combine this with the supply-side dynamics, where the Fed has continued to expand its balance sheet (the change in a central bank’s balance sheet can be thought of as a proxy for the amount of additional money that has been printed) – basic economic theory tells us that, all else equal, an increase in supply of an asset is likely to result in a decline in the value of that asset. Unfortunately, in this case the asset in question is the U.S. dollar.

Federal Reserve Balance Sheet



Data Source: St. Louis Federal Reserve

© 2011 Merk Investments, LLC

WHY SHOULD U.S. INVESTORS BE CONCERNED ABOUT A DECLINE IN THE U.S. DOLLAR?

One reason is that internationally, living standards of U.S. consumers are deteriorating relative to the rest of the world; one dollar bought more international goods two years ago compared with today. Contrast that with a country like Australia, which has experienced significant currency strength. One Australian dollar buys more international goods today than it did two years ago. For the U.S., this weak dollar dynamic is compounded if international goods are inflating in value. More concretely, let us illustrate a tangible example of how these trends work in practice:

³ For a more detailed analysis on our outlook for the U.S. dollar, please see our *Economic Perspective* and visit *Merk Insights*

Both the U.S. and Australia import goods from China. Through March 31, 2011, prices of Chinese goods rose at an average annualized rate of 6.6% over the preceding two years⁴. If we assume this inflation level was indicative of the price increase of Chinese exported goods, as priced in Chinese renminbi, a widget costing 100 renminbi two years ago would now cost 113.63 renminbi.⁵

While \$100 U.S. dollars would have bought 6.8 Chinese-made widgets two years ago, \$100 now only buys 5.8 widgets; in U.S. dollars, the price of Chinese-made widgets increased 18.6%. Conversely, \$100 Australian dollars would have bought 4.7 widgets two years ago, but now buys 6.0 widgets; in Australian dollars, the price of Chinese-made widgets declined 20.6%.⁶ *The Australian dollar has greater purchasing power, while the U.S. dollar has lost purchasing power.*

The above example highlights one of our key concerns surrounding the ongoing weakness in the U.S. dollar: weakness in a currency often manifests itself in a loss of purchasing power, or inflation. Consumers are already experiencing the effects of inflation through rising gas prices at the pump and food prices at supermarkets and restaurants throughout the country. Moreover, we appear to be entering a period of increased global inflation: the price of many inputs that go into manufactured products abroad has been increasing at an accelerated rate, as have food prices, which puts upward pressure on labor costs in emerging markets (where food makes up a significant proportion of income expenditure). Indeed, we have recently witnessed double-digit percentage increases in labor costs throughout many emerging markets, such as China. These input price increases may likely flow into the final price that U.S. importers pay, and ultimately the U.S. consumer. Industry executives have been sending ominous signs. Li & Fung, an established sourcing and logistics company operating out of Hong Kong, recently warned that a new era of higher priced exports had begun, as manufacturers pass on the rising costs of raw materials and labor. Walmart is a notable client of Li & Fung.

To an extent, we have already witnessed these dynamics play out. In the spring of 2008, as oil and commodity prices were soaring, import prices began to rise. Many goods increased in price, the most mundane items suddenly increased in price. For example, we heard stories such as the price for coat hangers increasing by over 200%. Asian manufacturers could no longer afford to absorb the increased cost of raw materials and were passing them on to U.S. importers. Of course, when the financial crisis struck later that year, inflationary concerns dissipated substantially due to the economic fallout.

Conversely, a strong currency not only helps to increase the relative living standards of a nation, but also helps to contain inflationary pressures. Extending our U.S./Australian example above, Australia's central bank (the Reserve Bank of Australia, or RBA) has been a vocal proponent of a free floating currency, believing the recent strength in the Australian dollar has helped to contain inflationary pressures in the face of global increases in prices, and helps mitigate boom-bust economic cycles. The RBA points to the current increased demand for resources and corresponding currency strength as support for the latter hypothesis: when the Australian dollar appreciates, it naturally increases the price of exported resources, in turn helping to smooth and contain international demand (Australia is an extremely resource-rich nation).

⁴ Source: Bloomberg. Calculated using Chinese PPI data.

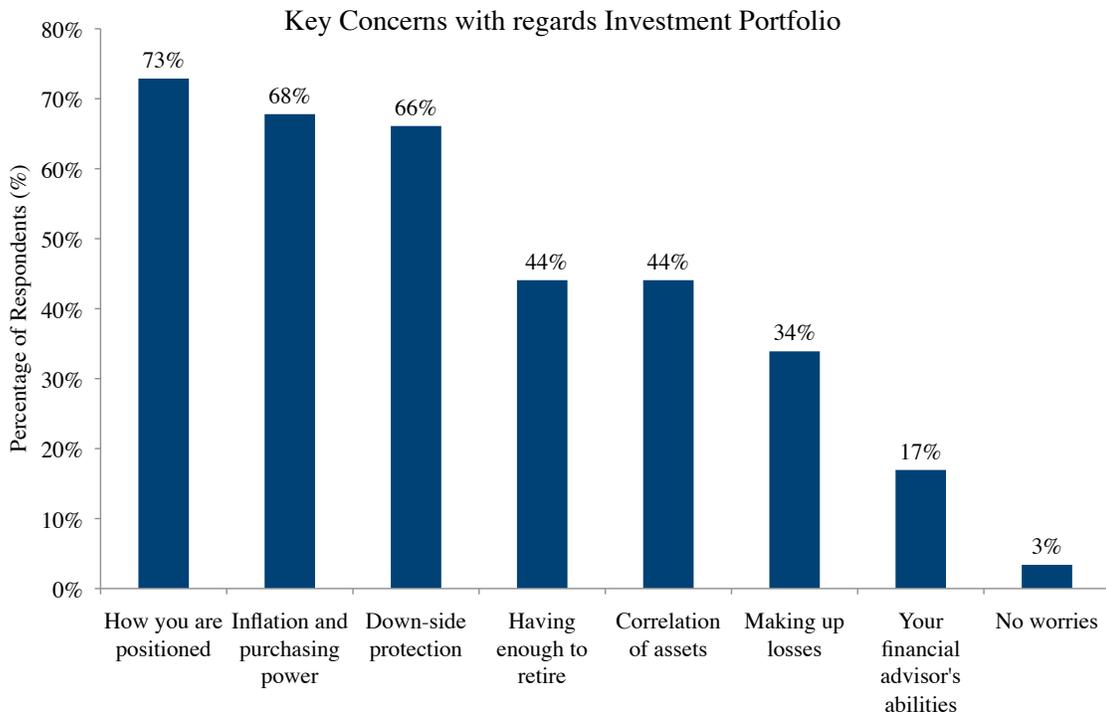
⁵ $= 100 \times (1.066)^2$

⁶ On March 31, 2009, the U.S. dollar-Chinese renminbi exchange rate (USDCNY) was 6.8336 while the Australian dollar-Chinese renminbi exchange rate (AUDCNY) was 4.7239. Put simply, one U.S. dollar bought 6.8336 renminbi, while one Australian dollar bought 4.7239 renminbi. On March 31, 2011, the USDCNY exchange rate had weakened to 6.5483, while the AUDCNY exchange rate had strengthened to 6.7617. (Data source: Bloomberg.)

From an investor’s standpoint, investing in strong currencies, whose value is underpinned by solid fundamentals, may help mitigate against a decline in purchasing power brought about by a weakening U.S. dollar.

There are numerous examples of the debilitating economic effects of a decline in purchasing power evident today – from small business owner’s rising input costs (and inability to pass these costs on), to households’ inability to keep pace with the rising cost of food and gas prices. With many salaries stagnant due to the large labor slack brought about by high unemployment, and housing prices remaining depressed, many are caught in the middle, having either to dip into savings or cut spending drastically, as the purchasing power of the dollar is eroded. Indeed, even the price of pulp used to produce paper has increased by over 50% in the previous two years⁷; quite literally, the U.S. dollar may not be worth the paper it is being printed on.

Concerns surrounding inflation and deterioration in purchasing power appear to be at the forefront of investor’s minds. In March 2011, Merk Investments conducted a survey of members of the American Association of Individual Investors. Nearly 70% of respondents listed “inflation and purchasing power” as a key investment portfolio concern, second only to current portfolio positioning:



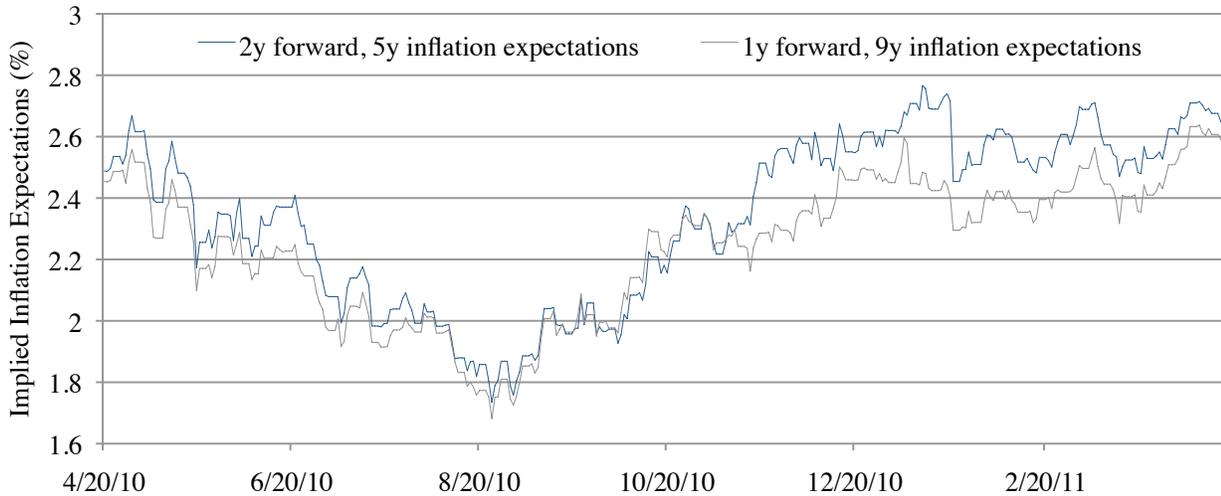
Source: Merk Investments Research, March 2011
 Results based upon 59 responses from members of American Association of Individual Investors (AAII)

© Merk Investments, LLC

Measures of implied inflation expectations have been rising recently, possibly in large part due to the significant increase in the price of oil. By analyzing the difference between various maturity Treasury securities and equivalent maturity Treasury Inflation Protected Securities (TIPS), we can assess the market’s implied expectations for inflation over a variety of different timeframes. Amongst the measures of implied inflation expectations that we track are: five year inflation expectations two years from today, and nine year inflation expectations one year from today. As the following chart illustrates, both these measures of implied inflation expectations have been trending upwards since August 2010:

⁷ Source: Bloomberg. As measured by the FOEX PIX Pulp US NBSK Price Index (long-fiber northern bleached softwood kraft pulp).

Market-Implied Inflation Expectations



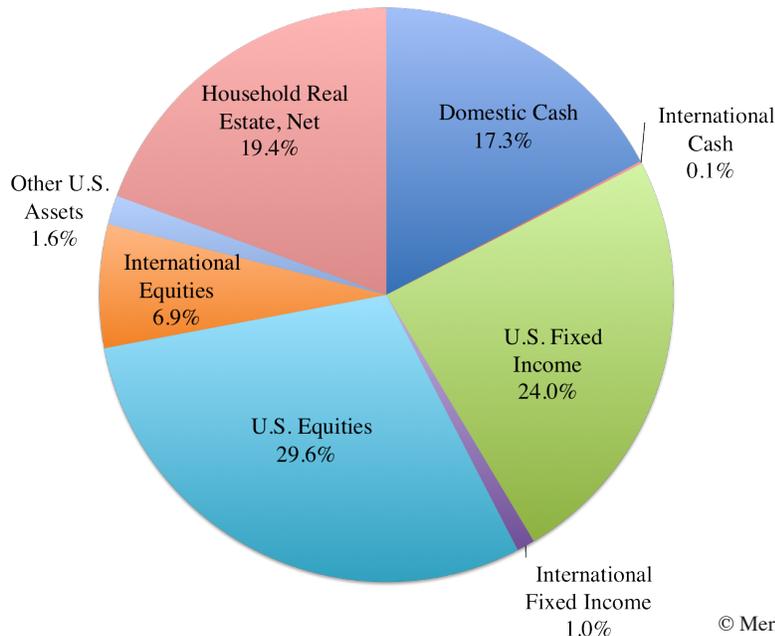
Data Source: Bloomberg

© Merk Investments, LLC

HOW EXPOSED ARE U.S. INVESTORS TO THE U.S. DOLLAR?

With the risk of a further deterioration in the purchasing power of the U.S. dollar, how exposed are U.S. investors? To answer this question, we analyzed data compiled by the Federal Reserve Statistics department, specifically the data found in Z.1 Release: Flow of Funds Accounts of the United States. This statistical release provides an aggregated balance of financial assets across various sectors of the U.S. economy, therefore providing a snapshot at various points in time of the allocation across asset classes for each sector. Specifically, we analyzed the breakdown across asset classes for the personal sector.

The financial assets of the personal sector, as defined in the Z.1 Release, include nonfarm non-corporate business assets and farm business assets; we subtract these assets from our analysis. We assume that the resulting asset breakdown can be used as a proxy for the aggregate U.S. household's financial allocation. Next, we stripped out checkable deposits and currency from the data – assuming that this value is transitory in nature (i.e. it is used for day-to-day expenses and is replenished on an ongoing basis via personal income) and therefore not considered a core investment holding. Also excluded from the analysis were miscellaneous and other assets, which are largely made up of insurance-related items and unidentified assets, and private life-insurance reserves. We analyzed the data over a five-year time period through the end of 2010. The average aggregate asset allocations are depicted in the chart below.

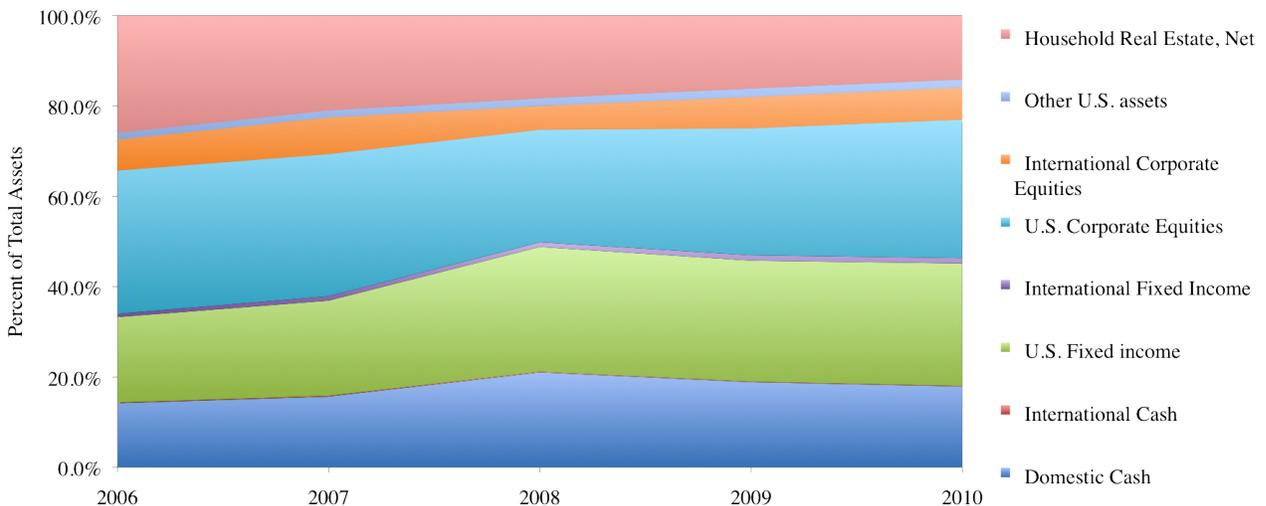
Aggregate Assets of the Personal Sector


© Merk Investments, LLC

Source: Federal Reserve Statistical Release Z.1 - Flow of Funds Accounts of the U.S., March 10 2011

Calculations based on five year average values 2006 - 2010. Calculations exclude Nonfarm Nonfinancial Noncorporate Business and Farm Business assets, Checkable Deposits and Currency, Private Life Insurance Reserves, and Miscellaneous and Other

We depict household real estate *net* of mortgage debt. *Gross* household real estate actually makes up the largest portion of the U.S. personal sector’s assets, and therefore trends in house prices can have a large bearing on the aggregate net worth of the private sector. As the following chart outlines, the net household real estate allocation has declined significantly over the five-year timeframe, from a 26.0% allocation to 14.2%, largely reflecting the decline and ongoing stagnation in property prices. (As an aside, but very much related, it is unsurprising that the Fed may have wanted to instigate property price inflation via the purchase of mortgage-backed securities in 2008 and 2009.)

Asset Class Allocation Trends 2006-2010


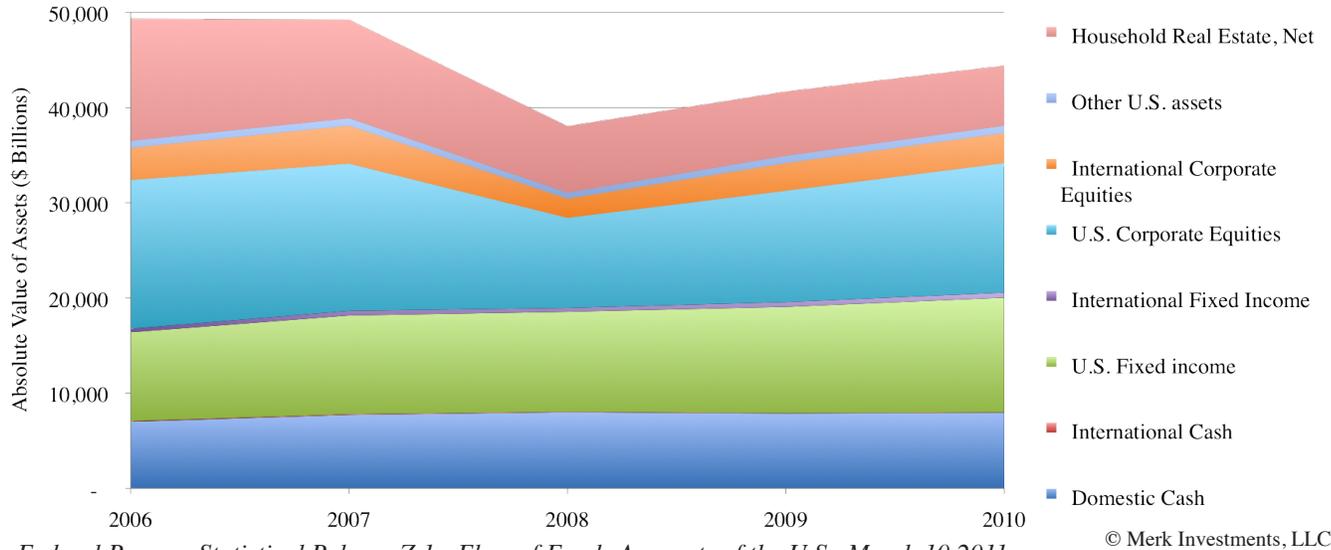
© Merk Investments, LLC

Source: Federal Reserve Statistical Release Z.1 - Flow of Funds Accounts of the U.S., March 10 2011

Calculations exclude Nonfarm Nonfinancial Noncorporate Business and Farm Business assets, Checkable Deposits and Currency, Private Life Insurance Reserves, and Miscellaneous and Other

In terms of absolute value, we can see that total assets declined through 2008, predominantly led by a decline in housing and equity prices:

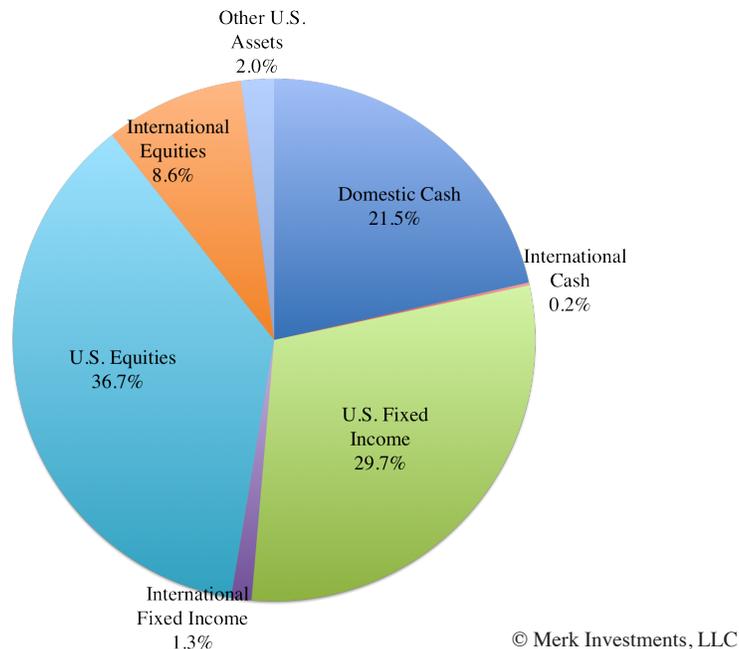
Asset Class Allocation Trends 2006-2010



Source: Federal Reserve Statistical Release Z.1 - Flow of Funds Accounts of the U.S., March 10 2011
 Calculations exclude Nonfarm Nonfinancial Noncorporate Business and Farm Business assets, Checkable Deposits and Currency, Private Life Insurance Reserves, and Miscellaneous and Other
 © Merk Investments, LLC

Excluding housing, and focusing on the more intangible financial assets recorded in Release Z.1 may be representative of the assets typically referred to and associated with savings and investment underlying retirement and future obligations. These allocations may be indicative of those investors typically associate with personal investment retirement portfolios.

Aggregate Intangible Financial Assets of the Personal Sector



Source: Federal Reserve Statistical Release Z.1 - Flow of Funds Accounts of the U.S., March 10 2011
 Calculations based on five year average values 2006 - 2010
 Calculations exclude Nonfarm Nonfinancial Noncorporate Business and Farm Business assets, Checkable Deposits and Currency, Private Life Insurance Reserves, and Miscellaneous and Other
 © Merk Investments, LLC

(Please see Appendix 1 for a detailed analysis of the underlying allocations depicted in the charts above.)

For the purposes of this analysis, we include net household real estate in the following calculations, as, in our view it should be considered a key component of any personal investment portfolio.

Our analysis finds that approximately 91.9% of aggregate assets are denominated in U.S. dollars. The analysis also finds that approximately 10.7% of aggregate personal sector assets provide exposure to international currencies (including international currency exposure via U.S. dollar denominated assets). ***In essence, nearly 90% of the aggregate U.S. personal sector's assets leave investors susceptible to U.S. dollar risk.***

INTERNATIONAL CURRENCY EXPOSURE

To calculate the estimated international currency exposure, we first sum all assets denominated in foreign currencies: international cash, international equities, and international fixed income. We estimate this represents 8.1% of aggregate private sector assets; 91.9% of aggregate private sector assets are denominated in U.S. dollars. It's important to note, however, that many of these international investments may themselves be hedged to the U.S. dollar; therefore, the real aggregate foreign currency exposure may actually be much lower than 8.1%.

Next, we assessed the international currency exposure derived from owning U.S. corporate equities. The underlying theory is that by investing in a U.S. corporation that has significant international operating earnings, an investor is essentially creating a de-facto exposure to the currencies where those international operations are located; should the U.S. dollar fall vs. those currencies, the international business earnings will be enhanced when translated into U.S. dollars, which will in turn be reflected in higher earnings growth, driving the price of the stock up. However, this de-facto currency exposure may be limited depending upon the extent to which the business employs economic hedging to its foreign currency exposures, which we illuminate below.

During the time period 2006 through 2009, S&P estimates that U.S. corporate businesses included in the S&P 500 index derived approximately 46.0% of revenues from abroad.⁸ We assume that the S&P 500 index is indicative of the aggregate U.S. corporate equity exposure found in Release Z.1, and that the cost and margin structures of international operations are similar to that of domestic business models. Hence, we assume U.S. corporate earnings are comprised approximately 46.0% from international operations and 54.0% from U.S. operations.

However, because U.S. corporations actively employ economic hedging policies on international operations, *it is only the net un-hedged positions that generate currency exposure for investors.* How are economic hedges employed? Most U.S. corporations utilize the U.S. dollar as their functional currency, and actively hedge income statement exposures to that functional currency, effectively nullifying any impact of currency price movements versus the U.S. dollar. Indeed, in our opinion, the presence of corporate hedging departments within the currency market creates inherent inefficiencies and potential profit opportunities.⁹ Feedback from a survey of FX departments of various large multi-national banks suggested that listed U.S. corporations hedge approximately 80% of their international income statement exposures back to U.S. dollars. This feedback is in-line with a study conducted by Citigroup, which found that approximately 80% of corporate America's income statements are hedged to U.S. dollars.¹⁰ The larger the business, the more active the corporate hedging tends to be. Indeed, listed U.S.

⁸ S&P 500: 2009 Global Sales, S&P Indices –Research & Design, August 2010

⁹ Please see an analysis of the unique characteristics of the currency asset class at merkfunds.com and previous white papers

¹⁰ Source: 2010 CitiFX Corporate Risk Management Study

companies tend to employ economic hedging policies more prevalently; as a result of investor interest, these companies often provide earnings guidance; economic hedging allows management to better estimate future earnings and provide the market with earnings forecasts.

While approximately 46.0% of U.S. corporate earnings may be derived from abroad, the un-hedged portion that provides investors with international currency exposure actually only amounts to approximately 8.9% of total U.S. equity exposure. This equates to approximately 2.1% of the U.S. personal sector's aggregated asset allocation.

We also include our estimate for U.S. investor's allocations to currency investments, predominantly through currency mutual funds and exchange-traded vehicles. Release Z.1 does not break assets down to this level of detail, so our assessments rely on the relative market size of these vehicles. Using the relative market size of all listed currency vehicles as an estimate for U.S. investors aggregate direct currency vehicle investments, we find that currency exposure via mutual funds and exchange traded vehicles represents a very small fraction of the U.S. personal sector's aggregated asset allocation. Indeed, approximately 0.04% of the total U.S. equity market, and 0.01% of aggregate personal sector allocation.¹¹

Summing the above estimated currency exposures, we find that the total international currency exposure for the aggregate U.S. personal sector is approximately 10.7%; *89.3% of the U.S. personal sector's assets are directly linked to the risk of the U.S. dollar declining.*

Aggregate Private Sector Currency Exposure - percent of total assets:

Direct International Exposure	
International Equities	6.9%
International Cash	0.1%
International Fixed Income	1.0%
	8.1%
Plus: Unhedged U.S. Equities Foreign Earnings Proportion	
Estimated U.S. Equities Foreign Earnings	13.6%
Assume 19% unhedged:	2.6%
Plus estimated currency mutual funds, ETF exposure	0.0%
=> Total international currency exposure	10.7%
=> U.S. Dollar exposure	89.3%

Sources: Federal Reserves Statistical Release Z.1 - Flow of Funds Accounts of the U.S., March 10, 2011; World Federation of Exchanges; Morningstar; Bloomberg; Merk Investments

¹¹ Sources: Morningstar, Bloomberg, Merk Investments

Of course, this is an estimate of the aggregate currency allocation for the private sector population as a whole, and individual asset allocations may differ significantly from the above analysis, depending upon individual risk profiles, outlook and market sentiment. Certain types of investors may have quite substantially different allocations. For instance, the American Association of Individual Investors (AAII), whose members tend to be active individual investors, estimates that historical portfolio allocations for AAII members has been approximately 60% stocks, 15% bonds and 25% cash.¹² Additionally, and as alluded to earlier, many investors may exclude the value of their homes from estimates of portfolio allocation, which would be the case in these AAII findings (unless all AAII members prefer to rent).

Moreover, the data underlying the above analysis is a snapshot taken at certain points in time; portfolio allocation changes may occur on a periodic or frequent basis, and are an ongoing, dynamic process. However, it does highlight that in a world of increasing globalization, *U.S. investor allocations appear overly exposed to the U.S. dollar and U.S. dollar denominated assets*. U.S. investors may want to consider taking a more managed approach to their currency exposures, in light of the above analysis, and reduce the large apparent U.S. dollar risk present, especially if they believe there is a significant risk that the U.S. dollar will weaken and lose purchasing power going forward.

CONCLUSION

In the current environment, adding portfolio protection against a decline in the U.S. dollar may be of the utmost importance. There is a significant risk that the U.S. dollar continues to weaken, causing deterioration in purchasing power. Inflation expectations have risen recently, and protection against inflation and purchasing power has been shown to be a key investment concern. At the same time, our analysis demonstrates that U.S. investors appear to be, on aggregate, overly exposed to the U.S. dollar. Now may be the time to consider diversifying away from U.S. dollar denominated assets, or managing the U.S. dollar risk inherent in investor's portfolios.

* * *

ABOUT THE AUTHORS



Axel Merk is the President and CIO of Merk Investments, manager of the Merk Funds. An authority on currencies, he is a pioneer in the use of strategic currency investing to seek diversification. Axel Merk is a sought after speaker and author on topics ranging from the economy, gold and currencies to sustainable wealth and personal finance, as well as a regular guest and contributor to the business media around the world.



Kieran Osborne, CFA is the Director of Research of Merk Investments. He is an expert on macro trends and currencies and has a comprehensive quantitative background. He oversees Merk in-house research and frequently publishes research reports focused on global economic trends.

¹² AAII Asset Allocation Survey, March 2011

APPENDIX 1:

Please see below for a detailed analysis of the underlying allocations depicted in the Asset Allocation charts in this report:

Domestic cash is comprised of: time and savings deposits, money market mutual fund shares, open market paper, and the cash portions found in mutual fund allocations, government and private defined contribution pension plans.

International cash is comprised of: foreign deposits

U.S. Fixed income is comprised of: U.S. savings bonds, Treasury securities, Agency and GSE-backed securities, Municipal debt, U.S. corporate bonds, Defined benefit plans¹³, and the U.S. fixed income components of mutual fund allocations, government and private defined contribution pension plans.

International Fixed Income is comprised of: Foreign corporate bonds, and the international fixed income components of mutual fund allocations, government and private defined contribution pension plans.

U.S. Equities are comprised of: U.S. domestic corporate equities, and the U.S. equity components of mutual fund allocations, government and private defined contribution pension plans.

International Equities are comprised of: International corporate equities, and the international equity component of mutual fund allocations, government and private defined contribution pension plans.

Household Real Estate is comprised of: all types of owner-occupied housing, including farm houses and mobile homes, as well as second homes that are not rented, vacant homes for sale, and vacant land, Less home mortgages, including loans made under home equity lines of credit and home equity loans secured by junior liens.

Other U.S. Assets are the sum of all assets not identified as any of the above categories.

¹³ *The payout structure of a defined benefit plan is similar to that of fixed income, whereby a set of known payments (defined benefits) is owed to an employee, similar to known coupon payments owed to a bondholder. The credit risk may differ, depending on the funded status of a company's pension obligations and its financial condition, as does the credit risk associated with a broad range of fixed income securities, as included in the aggregate values for the U.S. used in this analysis. As such, we deem it appropriate from an investor's standpoint to include defined benefit pension assets as fixed income, irrespective of the assets underlying those obligations.*

* * *

The Merk Mutual Funds (“Funds”) may be appropriate for you if you are pursuing a long-term goal with a currency component to your portfolio; are willing to tolerate the risks associated with investments in foreign currencies; or are looking for a way to potentially mitigate downside risk in or profit from a secular bear market. For more information on the Funds and to download a prospectus, please visit www.merkfunds.com.

Investors should consider the investment objectives, risks and charges and expenses of the Funds carefully before investing. This and other information is in the prospectus, a copy of which may be obtained by visiting the Funds’ website at www.merkfunds.com or calling 866-MERK FUND. Please read the prospectus carefully before you invest.

The Funds primarily invest in foreign currencies and as such, changes in currency exchange rates will affect the value of what the Funds own and the price of the Funds’ shares. Investing in foreign instruments bears a greater risk than investing in domestic instruments for reasons such as volatility of currency exchange rates and, in some cases, limited geographic focus, political and economic instability, and relatively illiquid markets. The Funds are subject to interest rate risk which is the risk that debt securities in the Funds’ portfolio will decline in value because of increases in market interest rates. The Funds may also invest in derivative securities which can be volatile and involve various types and degrees of risk. As a non-diversified fund, the Merk Hard Currency Fund will be subject to more investment risk and potential for volatility than a diversified fund because its portfolio may, at times, focus on a limited number of issuers. For a more complete discussion of these and other Fund risks please refer to the Funds’ prospectuses.

This report was prepared by Merk Investments LLC, and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Merk Investments LLC makes no representation regarding the advisability of investing in the products herein. Opinions and forward-looking statements expressed are subject to change without notice. This information does not constitute investment advice. Foreside Fund Services, LLC, distributor.

Explicit permission must be obtained from Merk Investments LLC in order to replicate, copy, distribute or quote from this document or any portion thereof.

Published by Merk Investments, LLC, June 2011

© 2011 Merk Investments, LLC