

Transcript of Permanent Portfolio Family of Funds Portfolio Manager Conference Call with Michael J. Cuggino April 26, 2017

Participants

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

Presentation

Operator

Greetings, and welcome to Permanent Portfolio Family of Funds Q&A Session with Michael Cuggino. At this time, all participants are in a listen-only mode. After a brief introduction by Mr. Clopton and opening comments by Mr. Cuggino, we will open the lines to questions.

It is now my pleasure to introduce your host, Mr. Jordan Clopton, Director of Institutional Sales.

Jordan Clopton – Director of Institutional Sales

Thanks, everybody, for being on the phone today. Big news day. I'm sure everybody's busy, so we're going to keep this call as informative and as brief as possible out of respect for your time. I hope everybody's Q1 is off to a good start. Lots to talk about today alone, a ton of headlines that people will probably be talking about for the next two weeks or so.

With that said, I'm going to turn it over to Michael. He's going to give a quick review of our strategy, what we did last quarter, quick review of some of the highlights of our asset classes and his thoughts, concerns (both positive and negatives) going forward into the remaining part of 2017.

Again, thanks for taking the time to join us today. With that said, I'll turn it over to Michael.

Michael J. Cuggino – President and Portfolio Manager

Thank you, Jordan and I appreciate everybody's time and thank you for your interest in our Family of Funds and where applicable, your investment in one or more of our portfolios. To get started here, first quarter of '17 was very interesting for a number of reasons, whether they were domestic in the United States or global, whether they were political or in one or more asset classes or economic activity, interest rate, policy, etc. There was a lot to digest in Q1.

Our portfolios continue to be managed in accordance with their investment objectives. There have been no changes on any of those forefronts. Going from the portfolio, Permanent Portfolio had performance in the first quarter of 4.08%. There's more detail—the average annual total return numbers available on our quarterly data sheets, which are on our website, as well as other information you can get from Jordan or any one of our sales team members. The performance was driven in Permanent Portfolio primarily by growth stocks and commodities. Gold had a big quarter; to a lesser degree silver and growth stocks, in a variety of industries.

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

For us, the big winners were entertainment and leisure and tech and manufacturing, with small help from biotechs. The detracking sectors were energy, which has an off quarter and consumer stock. Bonds contributed slightly in terms of treasuries to the performance as well. Swiss governments, also, and corporates to a lesser degree.

So I think what the first quarter looks like, given all the variation and returns and the different asset classes, the uncertainty relating to the political environment, the uncertainty starting in late February with respect to what the Federal Reserve was going to do in the first quarter, with respect to interest rates, it seems like a long time ago now, but there was a lot of expectation the Fed wasn't going to do anything interest rate wise until probably June at the earliest and maybe the second half of the year. That got moved up, at least the initial 25 basis point hit the Fed funds rate to March, which took everybody by surprise, but the markets quickly adjusted.

Given all that uncertainty, the portfolio, I think, performed according to what you would expect. It's diversified. It's disciplined and while the equity markets performed at around 6% based on the S&P 500 during the first quarter, we're not an equity fund. So we returned roughly two-thirds of that equity performance with, again, about a third of the volatility. So kind of a classic quarter from our standpoint. While not as sexy as equity performance is in the first quarter, not as dynamic, it is what we do.

With respect to our Aggressive Growth Portfolio, we were up about 4.67% in the first quarter, slightly below the S&P 500, at about 6.07 as we measure it. The differences there probably were while we had many good performing sectors in the portfolio (mainly the manufacturers, the financials, the technology in consumers), energy stocks and natural resource stocks is probably a negative impact in the portfolio for that quarter. The portfolio continues to invest in high beta, high volatility growth oriented stocks, which I think in the longer term is probably where you want to be in the stock market versus the yield equivalent, dividend pay— high dividend paying types of stocks that a lot of investors have gravitated towards the last few years as yield enhancers or yield equivalents, as bond yields have been very low.

We do think that going forward, we probably are going to enter a growth phase. Whether it's as dynamic as advertised and highly dependent on the actual policy, fiscal tax, regulatory policies that actually come out of the current administration in the US, we do think that they will, at some level, be better than what we've had in terms of business climate and policies, more pro-growth than what we've had in the last few years and that will likely add to economic growth, better profit margins, better PEs, etc. Potentially also on the negative side, higher inflation and potentially higher interest rates as long as those items are kept in control and in check. It's a positive thing, but there is a risk that when you have inflation and higher interest rates, market dynamics can take over and they can be a lot more aggressive and unwanted, as a positive, if they're held in control. So it is something we worry about, not only in Permanent Portfolio and Aggressive Growth, but in all four of our portfolios.

Versatile Bond Portfolio was up 15 basis points in the first quarter of the year. That was primarily driven by, while the 30-day yield in the portfolio remains consistent and we remain at probably 70%, 75% investment grade debt, some of the sectors that (and one being energy and natural resources) the bonds in some of those companies declined a little bit from where they had performed for the better part of last year. We continue to maintain a low duration, high-quality portfolio, for the most part in that portfolio and you're going to have periods of time where despite a consistent 30-day yield on the portfolio, you may have appreciation/depreciation in the short-term depending on how the market is trading some of those credits. And it remains invested in higher quality balance sheets and lower duration such that if market interest rates get away from us and the Federal Reserve's moves in the future are more aggressive than maybe the market anticipates or the market interest rates are more aggressive, whether a global activity around the world or central banks, other than the US, behave differently and create interest rate uncertainty, we think that our portfolio will provide a good hedge against some of that negative activity.

We do continue to believe that it remains a very good bridge from investors that are looking to lighten up on high yield aggressive debt, which we probably sound like broken records, not only us but many asset managers, saying the high yield space is going to be difficult. Bond quality matters. Rising rates are going to decimate that asset quality in some of the lower quality balance sheets. It hasn't happened yet, but I do believe that it probably will at some point and you want to be prepared. So moving some money on a higher yielding, lower quality balance sheet debt into something that's higher quality, lower duration balance sheet and interest rate risk would make sense. I think this portfolio's positioned to be a bridge for that for an investor's portfolio.

Lastly, our Short-Term Treasury Portfolio broke even during the quarter and with rising shorter-term rates offsetting expenses, that's how we get to that point. I expect that as we continue to roll over debt at higher shorter-term rates that portfolio will become a place for investors to invest in shorter-term, shorter duration treasury securities, whether that's the end goal or whether that's a place to facilitate holding liquidity until other ideas come to fruition would be at the choice of the investor.

Looking forward into Q2, I think this week, being an interesting week, is probably a good launch point. We've had a pretty good equity rally this week, kind of surprising in a sense and I would attribute it to the maybe relief rally due to the French elections. Le Pen was somewhat of a surprise, although not a huge surprise, but the fact that she's moving to the center and the fact that she's going against Macron in the runoff, who is a more institutional, European Union candidate, takes the risk away that politically France is going off the deep end. There's a relief rally there. The euro rallied, European equities, bonds, etc. also breathed a sigh of relief. And also the fact that we're in Donald Trump's 100-day anniversary here this week (and in fact, I think the day is today) and all the policy discussion that's occurred in the last few days, starting with today's news conference a couple of hours ago on taxes, which if the policies come to fruition, at that level or even a reduced rate would be much more bullish for business prospects in a number of different industries, whether it be corporate earnings, repatriation, etc.

Then when you layer in potentially less regulation under Frank Dodd, banking regulations, potentially maybe some movement on immigration, you have an ability to provide the infrastructure and climate for better growth going forward, which would benefit equities, as I mentioned before. It would benefit equities, would likely result in gradually rising interest rates, which would be normal and inflation rates that while roughly at the Fed's target right now, if these factors continue, you would expect inflation to begin to maybe, on a consistent basis, exceed the Fed's target. But there's as many people on that side of the equation that would say that the inflation data may be overstated and we may be declining and growth may hover around the levels that we've had the last few years and not grow much more.

These debates are ongoing and constant and one can always point to uncertainty in various markets all the time. It's just something that I think you need to be cognizant of. While we want to be growth investors ourselves and are, in certain aspects of our asset base, we do want to plan for the instances where that may not occur or there may be impediments to that story. Those do exist out there. The globally— you have political uncertainty in China. You have political uncertainty in Russia, in the Middle East. You have the British Brexit political discussions happening. While France is likely to get one of the two— well, will get one of the two candidates in the runoff, the policy implications there for France and European Union are strong. You still have the German elections. You have the continued disparity of anemic economic growth on the European continent, between the haves and have nots.

Any of these could pop up and put a dent in US economic prospects and equity pricing, especially given the fact that we're in roughly year nine of a bull market. If we do continue to get earnings growth, that's a positive for equities, but if not, you can argue that the rich valuations we currently have, both in equities and in debt, could begin to come down and correct and investors ought to be prepared for that scenario as much as putting in money into what would be perceived as more likely pro-growth policies.

With respect to the commodity story, I've touched in past calls and even in public comments relating to natural resources and commodities. Our view continues to be that from an opportunistic (and this would be one of several areas we see opportunities. Whether it's in debt or whether it's in equities) that we're in the trough of a classic cyclical commodity cycle. While we had a bump off the bottom last year, prices have moderated somewhat so far this year. That's okay. Consolidation is normal. I think if you believe the global growth story and the US growth story, despite something like energy where you have better supply in the US becoming a real factor in global supply, you're still going to have a demand equation that's going to use up whatever supply exists (say in energy) and you could extend that story to a lot of other commodities as well. In addition, if you get continued growth in China, even at reduced levels of mid-single-digit growth, you have quite a bit of demand on industrial commodities and metals there as well.

So I think the commodity story is one that's going to continue and strengthen, but maybe under the radar a little bit, and gradually, versus the significant bump we saw, for a portion of last year. So it's an area I think long-term investors want to be in and we certainly are.

Other sectors would include, again, the growth sectors of the equity markets, the financials, transports, energy, natural resources, technology. Biotech is an area that's stagnated lately, but it still holds quite a bit of promise regardless of what happens with healthcare in the US, global manufacturing, US companies and global manufacturing — another area; materials. There's a lot of places with a lot of promise going forward for long-term investors. We aim to be in many of them in our portfolios as our strategies permit.

I think the theme's going forward to look for in the second quarter as well as the rest of the year would be what sort of economic growth are we going to get? Are we going to get the 1% rough number that we're getting out of potentially Q1 and the anemic number we got at Q4 or are we going to revert to pattern where you get a weak Q1 but then a very expansive, probably, second and third quarter? And to what effect the ongoing political discussions and policy discussions in Washington are going to enhance or detract from those numbers.

Also, the inflation picture, how that figures in and the interest rate picture. One could make a case that the Fed could be done for the year if growth is bad and we don't get the type of economic stimulus out of Washington that the market, I think, expects at some level. Or we get dynamic policy prescriptions and we do end up with two to three more rate increases over the course of the year. Monetary velocity is going to play a role there— how quickly money gets put into the economy and that will be driven by investor sentiment, which has been strong. Consumer confidence, which has also been fairly strong and continue low on employment to keep people with disposable income in their pockets to continue to invest and consume in the economy.

So I think policy prescriptions, inflation, interest rates, global economic growth and probably the European political climate would be another one I would look at. There's no question that if the European Union disintegrates, in some form (whether it's the currency or more broadly) and gets back to more of a silo, every individual country for itself, in the longer-term, they would survive. But in the short-term, I think there would be significant dislocation and a likely recession over there as countries— there's just the confusion of how they would figure on working with each other, as well as the rest of the world. That would impact US growth as well as global growth.

So some thoughts to keep in mind. We continue to execute our portfolios in the strategies that exist. We continue to provide and enhance our distribution efforts across the various platforms we participate in. I want to thank everybody for that participation. If you have any questions, need materials, need to set up discussions with our portfolio team or our sales representatives, feel free to contact us. Whether it's through Jordan or Patrick or Dan, Donald or Brendan. I continue to appreciate the investment and the diligence to continue to be invested in diversification and discipline when the conventional wisdom for a long time now has been going the other way. I

do think that as part of even a growth strategy, one needs to have diversification and plan for multiple scenarios, some of which may be negative or just not as dynamic from a growth standpoint as maybe pure equities and plan for that.

So sometimes it seems like that strategy— it takes a strong stomach to maintain that strategy and continue with it, but when you look over the long-term, when you look at market cycles over a 10 or 15-year period, the strong stomach is rewarded. When you look at Permanent Portfolio over 10 years, it's return two thirds roughly of the S&P 500, with a third of that volatility. When you look at it over a 15-year market cycle, which goes back to roughly the .com bust, you're looking at a number that basically exceeds the S&P 500 by about 50 basis points and a third of that volatility.

These aren't promises. These aren't expectations or predictions going forward. The numbers are what they are for that 15-year period and over market cycles. I would stress that Permanent is a market cycle product and always is. Sometimes intermediate time periods within cycles can last several years. I think we're in one of those right now where it's an equity centric cycle. It has been and while there's growth there, you do want to be planning for what may come after when different asset classes may assert themselves or whether a growth asset class, like stocks, reverts back to the mean. So you want to keep a multi-asset strategy in mind. You want to keep low volatility in mind and you want to keep diversification in mind.

Thanks again and I'll open it up to questions.

Operator

No questions at this time.

Jordan Clopton – Director of Institutional Sales

Michael, do you want to give just a quick closing comment?

Michael Cuggino – President and Portfolio Manager

No, I think I probably did provide it in my ending. So I don't have much more to add there, but certainly, I would stress, especially if things get interesting, to give us a call to talk about our strategies, whether it's me or Jordan, one of you guys, just to keep discussion going and understand how something like what we do fits into people's broader investment strategies. I think it's important to keep in mind.

No, nothing beyond that. I appreciate everybody's investment and their time and good luck in the second quarter and throughout the rest of the year.

Jordan Clopton – Director of Institutional Sales

Michael, thanks for the time. To those that joined the call, thank you for your time. Again, if you have any questions, feel free to reach out to us. Anybody that's one the call obviously has our contact information. If you have any questions, just e-mail us, give us a call and we'll talk to you about this time in July.

I hope everybody enjoys their Q2 and we'll talk soon. Bye.

Please [click here](#) for a current Prospectus.

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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.

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