15 March 2011

Summary

It Is **Different** This Time

Featured Speaker: **Nicholas Bratt,** Managing Director, Portfolio Manager/Analyst

The global investment landscape continues to evolve as we move beyond the financial crises and witness the emergence of developing economies. We believe this may be an inflection point for investors for the decades ahead, as there is evidence to suggest we have witnessed the end of a 30-year era. We are in the transitional phase into a new era of investing. If that insight is correct, then it has profound investment implications.

The Passing of a Benign Era

To assert that we are entering a new era, it is useful to review the defining characteristics of the last 30 years. Exhibit 1 provides an outline of some of the major events and themes from this passing era.

What Do We Expect in the New Era?

As we transition into a new era, we must carefully consider the impact of the actions taken in the past. Following, we outline a number of areas where we have learned and we believe investors should consider going forward. One of the big lessons of the crash we just lived through is that laissez-faire attitudes have been chastened, challenged, and debunked. We recognize that going forward the government does have a role to play in markets, and we must re-regulate the financial industry while incorporating controls on many of the new vehicles that were created over the past decade. It is also clear that for the next 20 years we cannot expect to see steadily declining inflation or interest rates. Interest rates are at historically low levels, as such one can expect them to

Exhibit 1
A Passing Era

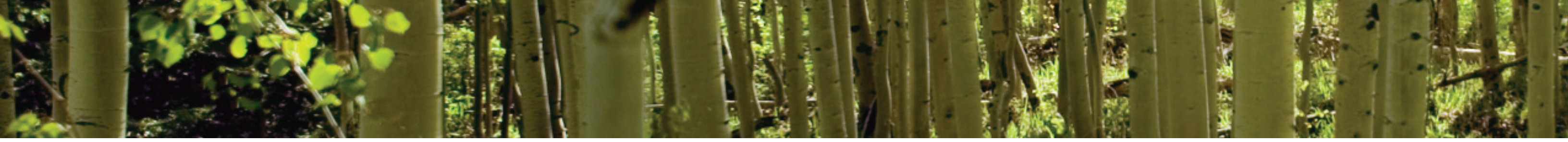
Globalization

- The end of the Cold War
- Globalization, growth of world trade, global integration
- The ascendancy of Western Liberal Capitalism
- Widespread wealth creation around the globe
- Extraordinary technological innovation
- Extraordinary financial innovation

Economic Expansion

- The emergence of successful emerging economies
- Extensive financial deregulation and liberalization
- Prolonged period of low inflation, declining interest rates, and rising debt
- Dampened economic cycles and sustained growth
- A complete belief in unfettered capitalism (Thatcher; Reagan; Greenspan)
- High, sustained stock market returns followed by a crash
- Extraordinary consumption and housing booms

LAZARD



start rising again. Because of demographic patterns, there will be growing intergenerational conflicts in countries around the world which are going to be suffering from rapidly aging populations. In many countries, the political pendulum has swung from the right back to the left, and as a result, "big government" is back. Even in the United States, the government bailed-out major private companies like AIG, General Motors, and the banking sector. So there are massive government spending programs in place in a desperate attempt to avoid a second Great Depression. Significant deleveraging is also taking place, particularly in the private sector, as people rebuild their savings levels. In the future one can expect to see greater responsibility in lending and borrowing practices, until of course, bad habits develop again. In the meantime, given the fiscal deficits that exist, we are going to have to accept the fact that, like it or not, going forward, we are going to see higher taxation and a certain amount of wealth redistribution. The deficits that many developed countries are running are simply unsustainable.

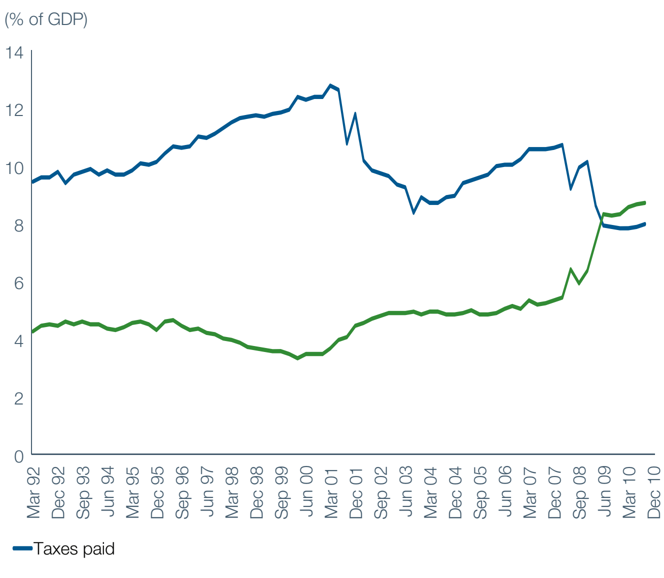
Government Credit Quality

After many years of taxes paying for the benefits that people have received in the United States, the lines have crossed, as illustrated in Exhibit 2. This is a major source of the deficit the United States is facing.

This problem is not one that is insolvable. Exhibit 3 shows the long-term pattern in expenditures and receipts in the United States. The gap in the deficit, until recently, was relatively small,

Exhibit 2

U.S. Households and the Government



As of 31 December 2010

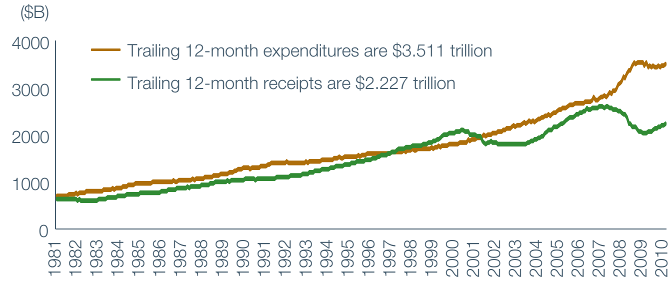
* Benefits less social insurance

Source: Factset

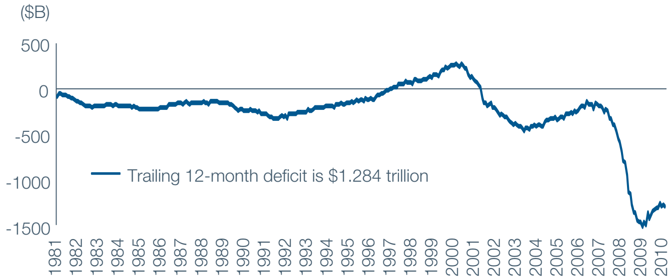
and it was quite manageable. In the late 1990s under President Clinton, the United States had a brief period where the government was running a surplus. The fiscal situation has deteriorated very seriously, but only recently. We believe it is feasible for the U.S. economy, if we can move forward from the dysfunctionality of the behavior of politicians, to move back to a situation where the fiscal situation is more balanced. This can only be achieved by a combination of increasing government revenues and reducing some of the expenditures.

Exhibit 3

Current Receipts and Expenditures



Surplus or Deficit

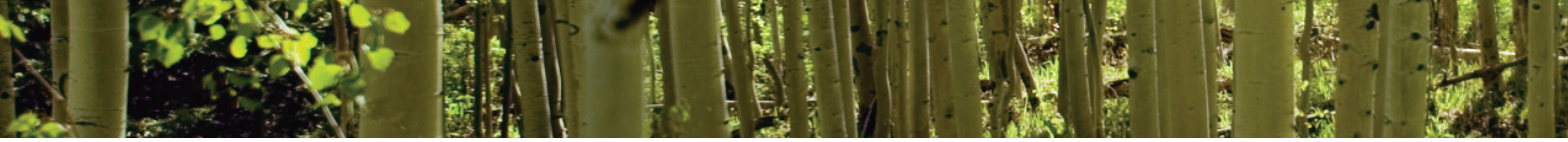


As of 31 January 2011

Source: Factset

What Do We Expect the New Era to Look Like on the International Stage?

We know that the relative geopolitical importance of the United States is being increasingly challenged by China. Interestingly at the beginning of March, Secretary of State Clinton, in testimony to Congress, stated that U.S. influence is being undermined by China around the world. The Middle East remains a "powder keg." This year we have seen the fascinating popular uprising in autocratic regimes in the northern part of Africa: Tunisia, Egypt, and Libya. In addition, we also have to consider what may happen in Yemen, Saudi Arabia, and China, despite assertions by the Chinese leadership that it is very different. Global terrorism remains a threat. We had the tragedy in Pakistan where a government minister who was promoting religious tolerance was assassinated by religious fundamentalists. The Six Party talks remain stymied by North Korea. Russia aspires to its former great power status. And we know that



selected emerging countries, especially India and Brazil, may gain significant geopolitical weight in addition to China.

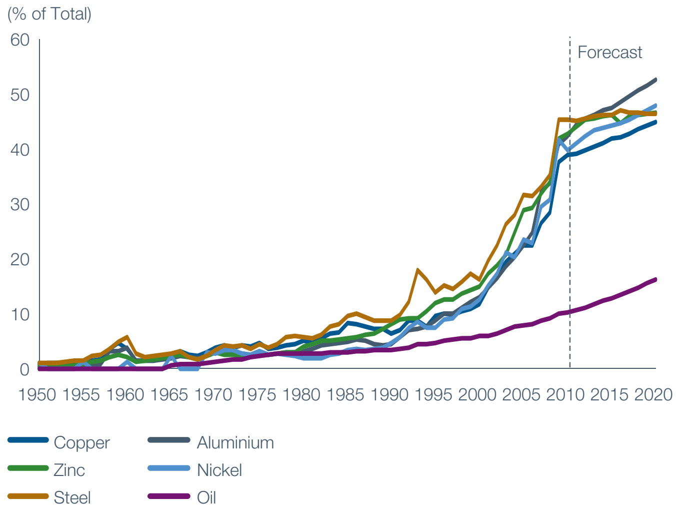
What Do We Expect the New Era to Look Like? – Open Questions

We are facing a number of questions as the new era takes shape. There is the issue of the speed and sustainability of economic recovery that is taking place in the world at the moment. It is striking how in the United States the recovery, so far, has not been accompanied by significant job creation. The strength of the stock market continues to be a question for investors. In this light, one of the great fears we have is protectionism. If the reduction in unemployment continues to take place at the slow pace we are seeing, there is a fear the protectionism will once again become a part of the rhetoric on global trade. Another interesting question that has to be asked is whether or not we should establish a new Bretton Woods and whether the IMF can be reconfigured to reflect reality. It is quite clear that the international financial system is not operating smoothly at the moment: There are great imbalances and foreign exchange misalignments. Finally, we must ask whether a new war will break out or whether we will see greater global cooperation and coordination.

China's Growing Importance and Evolving Geopolitical Role

China is becoming increasingly important on the international stage, and indeed its relationship with the United States is one of the most important bi-lateral relationships in the world. China recently became the world's second largest economy, displacing Japan. The relationship between the United States and China raises a question as to whether it is a symbiotic balance or structural imbalance. Generally, China saves too much and spends too little, while, given our optimism, the United States spends too much and saves too little. We believe that the imbalance between the two countries is unsustainable. China is currently building up foreign exchange reserves at the rate of $500 billion per annum. It now has the largest foreign exchange reserves, largely denominated in USD, and their growth cannot be sustained over the longer-term. Interestingly, China and the United States have become the world's two largest emitters of carbon dioxide, and it is already the case that more cars are produced in China than in the United States. China, however, is a "Command Economy." This raises some interesting questions as to whether or not its recent long-term target of 7-8% GDP growth is going to be sustainable in the future. As that economy becomes more complex, it becomes harder and harder for it to be run as a command economy. This growth, however, provides the Chinese government the ability to improve living standards. We must assess whether they can maintain those living standards, and indeed, whether China will become rich before it becomes old. Finally, inflation is beginning to pose a problem. China is short of natural resources and must import them from other parts of the world. It is in a desperate search to secure them. Exhibit 4 shows the extraordinary percentage of the world's natural resources that are currently consumed by China, and that trend is likely to continue. This trend will continue to put upward pricing pressure on commodities in general.

Exhibit 4
China's Share of World Usage



As of 1 March 2010

Estimates or forward-looking characteristics do not represent a promise or guarantee of future results and are subject to change.

Source: Macquarie

Investing in the New Era

With this background, we now look forward to how investors may want to consider the new era. The first point to highlight is that the global economy is immensely complex. Simple solutions do not exist. We would suggest that markets are the only mechanisms capable of handling such complexity, and we believe they should only be interfered with in order to ensure their smooth functioning. Secondly, since many of the rules of the last several years appear to be broken, we must rely on observation of events as they unfold, and rely heavily on common sense and analysis. Finally, we would suggest that in the absence of identifiable "rules of the road" for the new era, we believe investors should focus on transitional investments and be very well diversified.

Emerging Markets Are More Important than Ever

We believe investors must consider the emerging markets. It is uncontroversial that it is different this time because the emerging markets did not exist in the same size and dominance in the past as they do now. Exhibit 5 shows that the emerging market's share

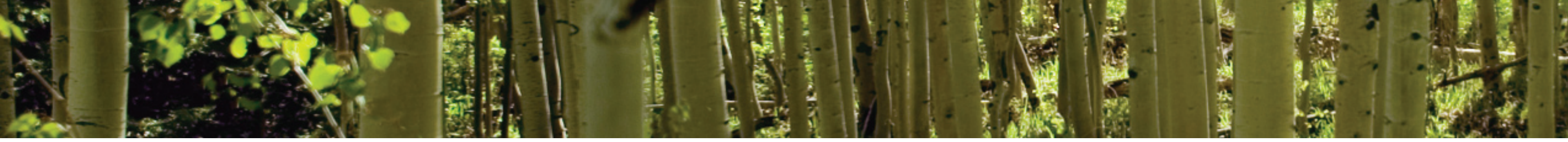
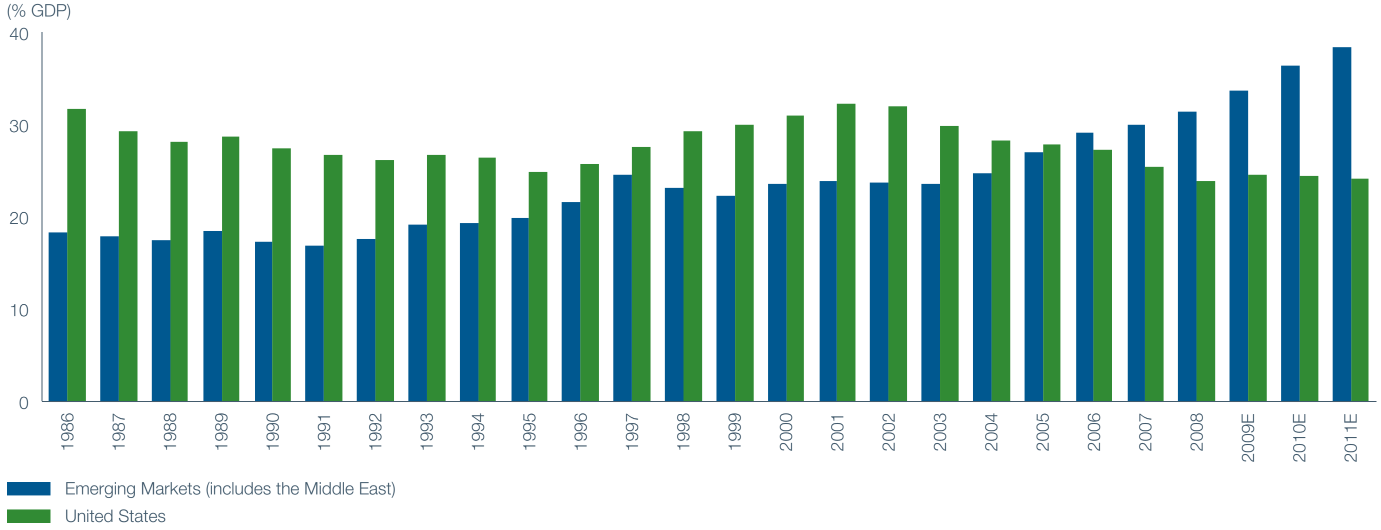


Exhibit 5
Emerging Markets Will Likely Take 38% of Global GDP by 2010 from just 21% in 1999



As of April 2010

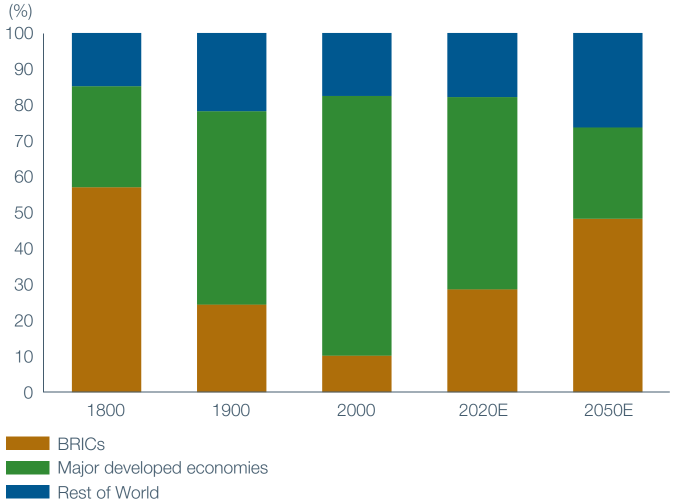
Estimates or forward-looking characteristics do not represent a promise or guarantee of future results and are subject to change.

The information above is based upon IMF classifications Emerging economies.

Source: Morgan Stanley

Exhibit 6
BRICs to Account for 50% of World GDP by 2050

Reverting to Levels in 1800



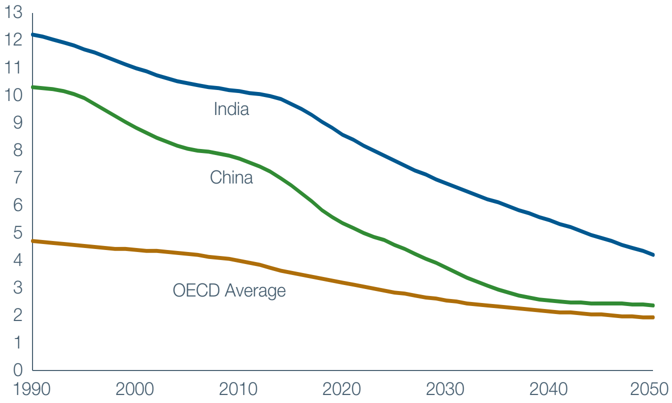
As of 1 May 2010

Share of global GDP by region, 2020 and 2050 are based on Goldman Sachs estimates. Estimates or forward-looking characteristics do not represent a promise or guarantee of future results and are subject to change.

Source: OECD, Goldman Sachs Global ECS Research

Exhibit 7
Working-age People per Retired Person

Persons of working age (20-64 yrs) per person of retirement age (65 yrs+)



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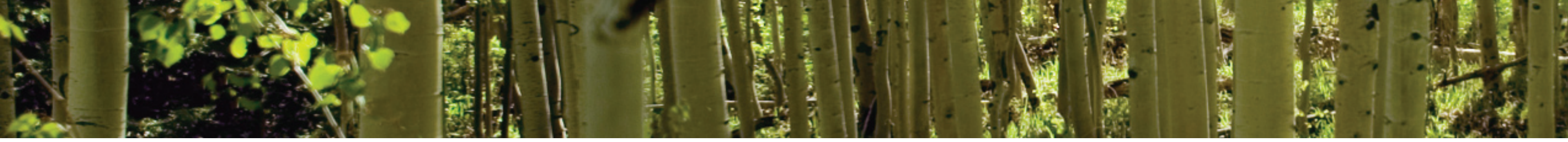
Estimates or forward-looking characteristics do not represent a promise or guarantee of future results and are subject to change.

Source: OECD



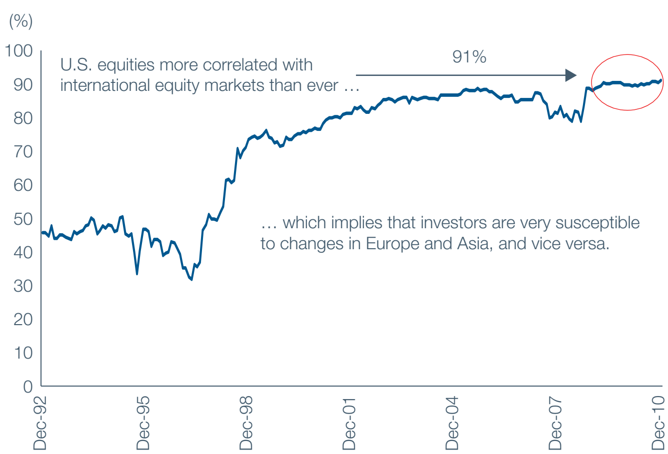
of GDP has risen dramatically. Exhibit 6 also shows the dramatic change that has occurred up to 2000 and then projected out to 2050. The relative contraction of the developed world inherently implies that emerging markets will take a larger share of world GDP over time. There is an interesting demographic problem that emerging markets are also facing, however. As their populations age the big question for India and China is whether or not they will become rich before they become old (see Exhibit 7). It is already the case that by 2017 China's labor force will start contracting.

Nowadays, People Buy "Exposure" Not Companies

Exhibit 8 highlights a stock market phenomenon that has materialized in recent years: the growing correlation of the world's stock markets. In the past there was a much wider dispersion in the behavior of the world's markets, but in recent years we have moved into a one-world stock market as world has become a much smaller place.

Exhibit 8
Correlation between the S&P Index and International Equity Markets

Rolling 60-month Correlation between S&P 500 Index and International Equity Markets*



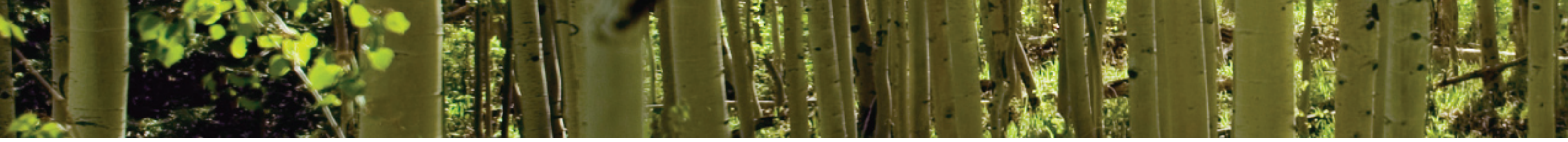
As of 31 December 2010

* International Equity Markets are represented by the MSCI All Country World Index ex-U.S.

Source: Bloomberg, Standard & Poor's, MSCI

Conclusion: Investing in the New Era

We believe that one may accept the point that government efforts have stabilized the financial system and housing markets. It is likely that financial historians will look back and conclude that on balance policy makers got it right: They did avert a second Great Depression. However, among the problems resurfacing we would highlight inflation, particularly in Asia. We are seeing inflationary pressures in the areas of food, raw materials, and particularly in energy. In addition, we believe the recent nuclear problems, resulting from the Japanese tsunami, are going to exacerbate the energy supply challenge the world faces. Sovereign deficits, particularly in the periphery of Europe, present another chronic risk. Geopolitical risks, particularly those resulting from the tension that may arise from the pursuit of raw materials by growing and dominant emerging markets and developed countries, do pose potential problems. We believe we are entering a multi-year period of greater differentiation between winners, survivors, and losers. We believe that investors employing forward-looking fundamental research, an understanding of risk factors, and strong security selection skills are more likely to succeed. Importantly global diversification will be essential for risk control.



Important Information

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