Kick-off Report: Engaging Risks and Finding Opportunities in 2011

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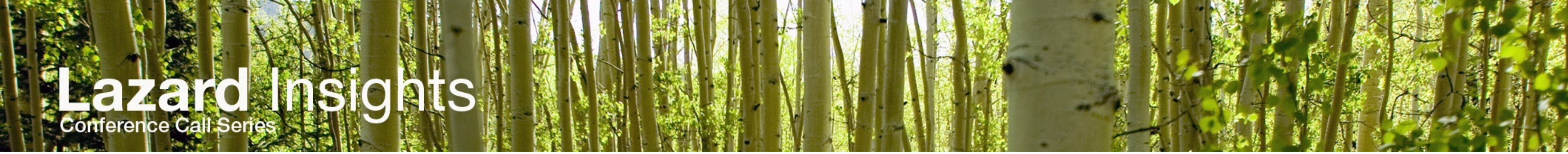
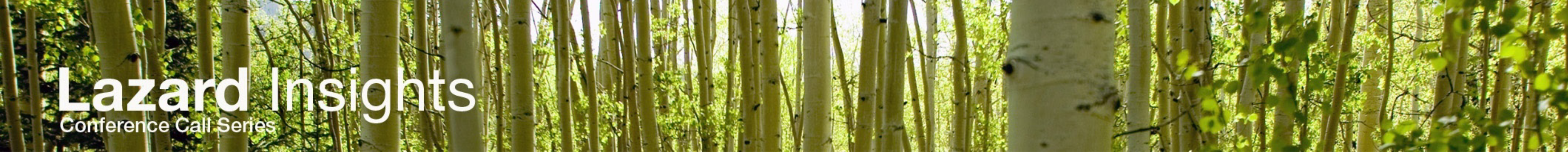


Global Overview

- Many improving economic data points indicate continued recovery
- Corporate profits are back to 2007 levels and expected to rise by another 11% next year[1]
- QE2 improves the relative return potential for risk-based assets
- After very strong flows to fixed income markets over the last two years, we began to see a reversal in November and December 2010
- Stated inflation remains muted in the developed world. Emerging markets inflation, however, is concerning
- Government debt risks, particularly in Europe, remain and intensify
- Policymakers are increasingly focused on structural debt issues, which is generally favorable

1 Source: ISI Group Weekly Economic Report, 6 December 2010



Key Economic and Investment Drivers

The directionality of several economic variables provides the basis for market viewpoints

Real Economic Growth	**Rising** Stable Contracting	Global economic growth is gathering momentum and sustainability.
Inflation	**Rising** Stable Contracting	Accommodative central banks have sparked increased inflationary pressures, particularly in the emerging markets.
Real Interest Rates	**Rising** Stable Contracting	In spite of quantitative easing, interest rates are rising due to increased inflationary and sovereign credit risks.
U.S. Dollar F/X Value	**Rising** Stable Contracting	The U.S. dollar will likely rise as relative economic performance improves.
Taxes and Regulation	Rising Stable **Contracting**	Policymakers are increasingly adopting pro-market initiatives and dealing with fiscal imbalances.
P/E Ratios	**Rising** Stable Contracting	Investors' appetite for equities will continue to rise, particularly as the economic environment improves and corporate profitability is sustained.
Fixed Income Risk Premiums	Rising **Stable** Contracting	Continued widening likely among sovereign and other governmental credit risk. Tight spreads will remain among private sector borrowers.
Volatility	Rising **Stable** Contracting	Volatility has fallen sharply and is likely to remain low as economic news improves.

= Bullish = Neutral = Bearish

As of 20 January 2011 and is subject to change

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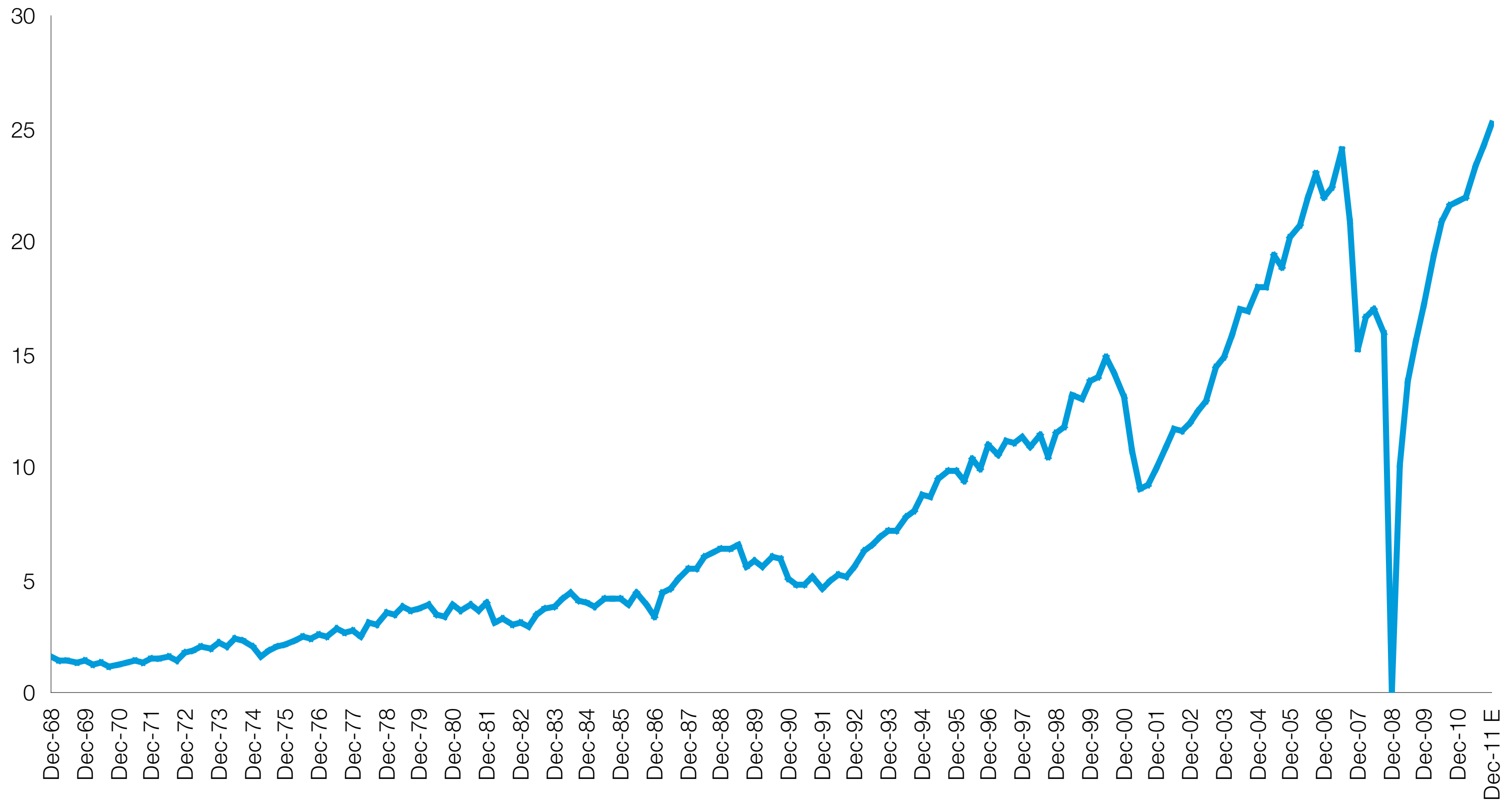
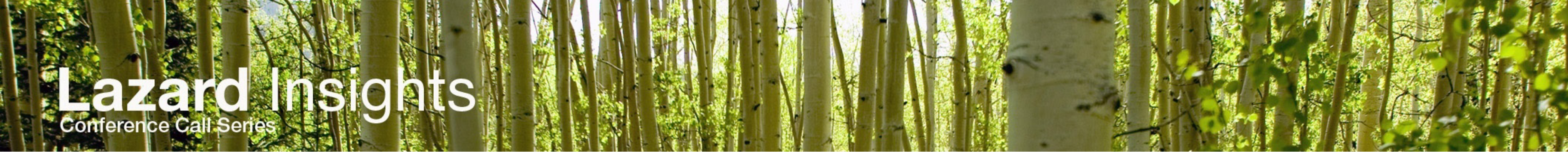
Corporate Profits Rally

- The recovery will not be led by housing or consumers
- Without these drivers, we believe real GDP growth will be 3%-4%

S&P 500 Index Earnings Per Share



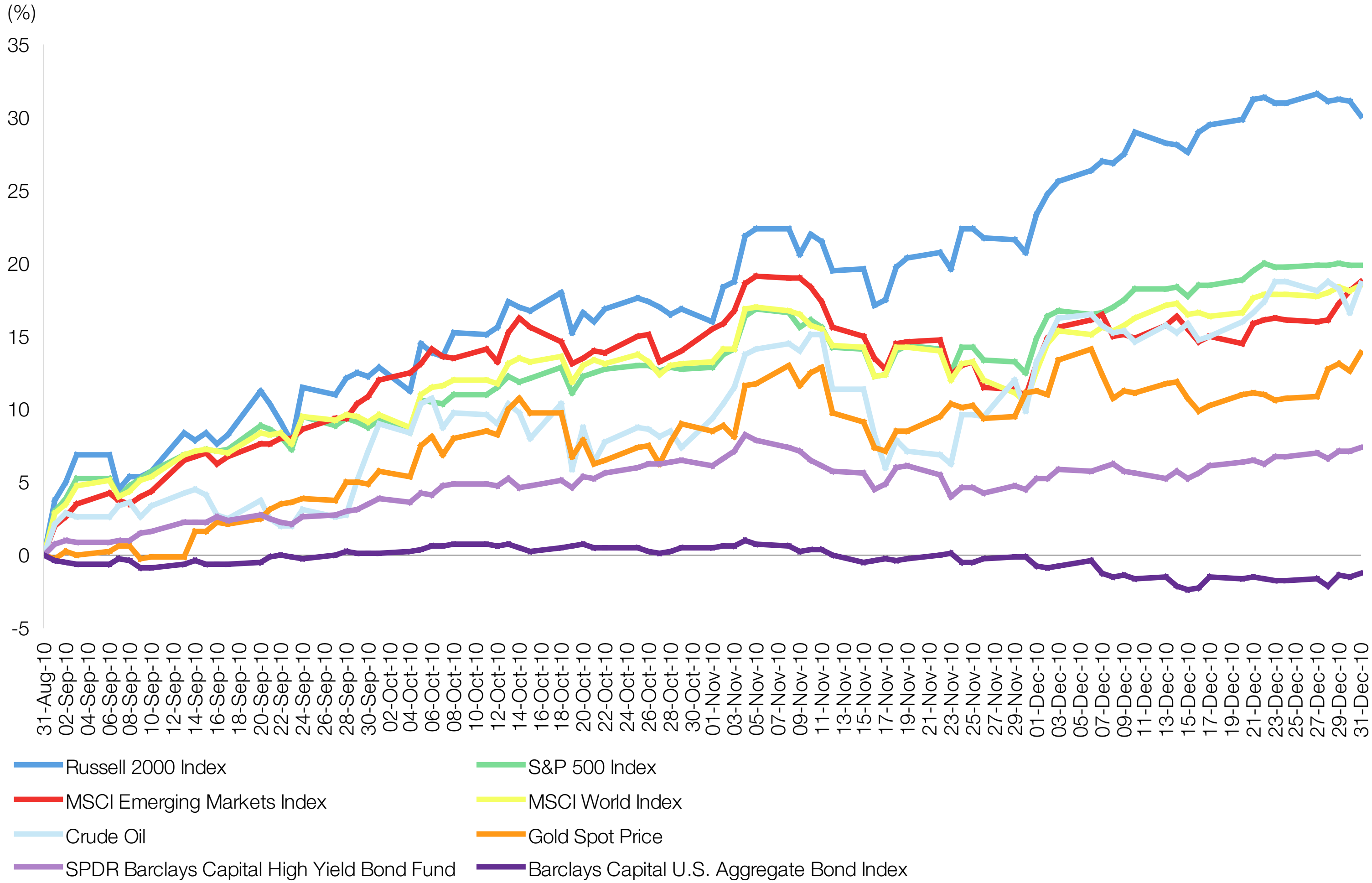
As of 31 December 2010
Source: ISI Group



Market Returns Since QE2 Announced

Further Fed induced liquidity to the marketplace has ignited a rally in a wide range of risk-based assets

Daily Returns – August 31 to December 31, 2010

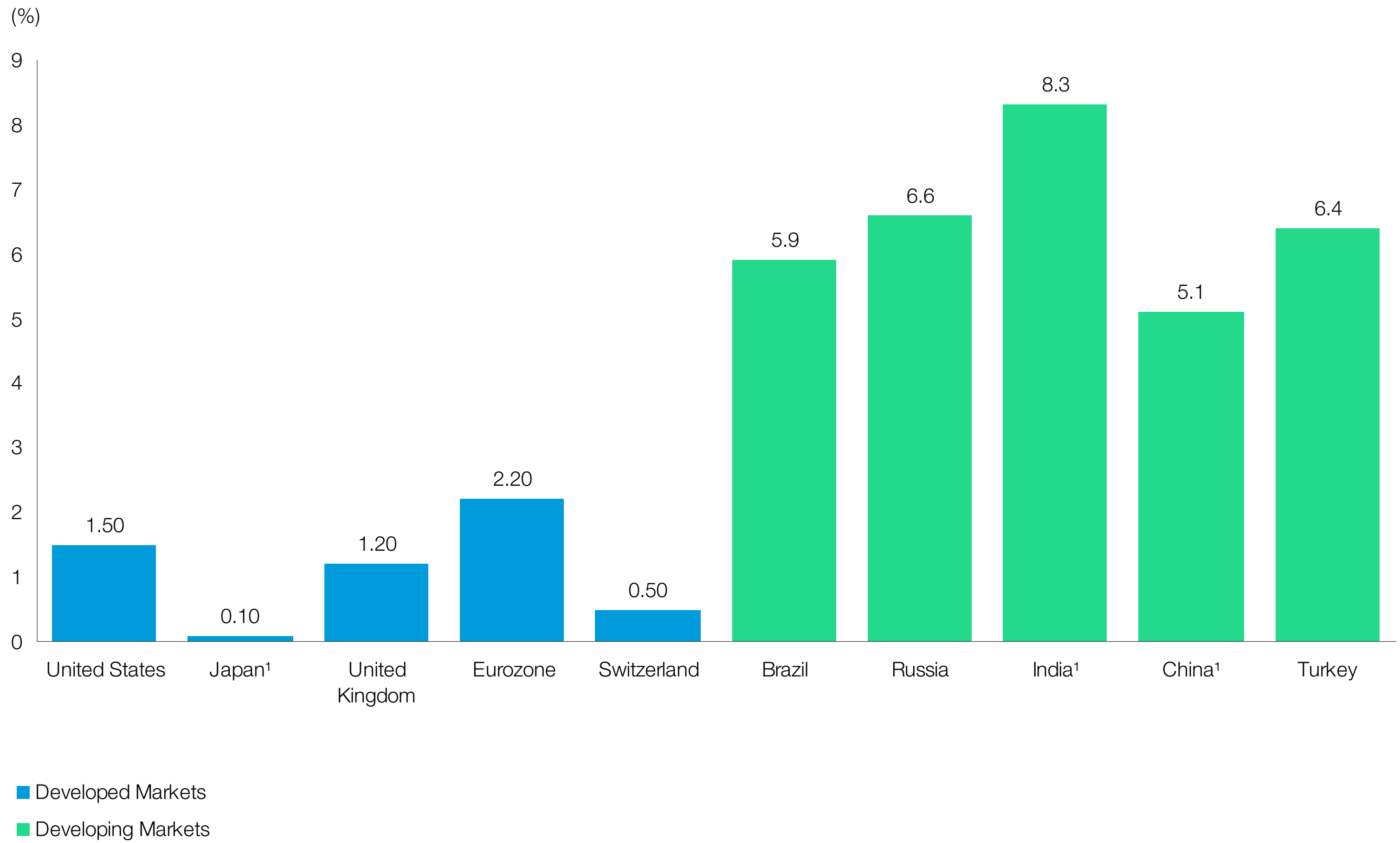


As of 31 December 2010
Source: Bloomberg

Inflation

Inflation differentials exist between developed and emerging markets

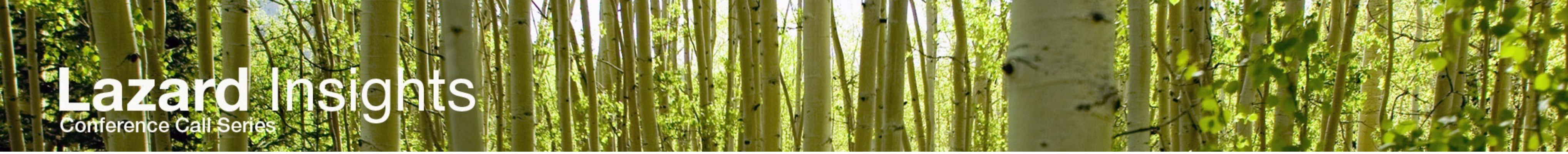
Consumer Price Index YoY % Change



As of 31 December 2010

1 As of 30 November 2010

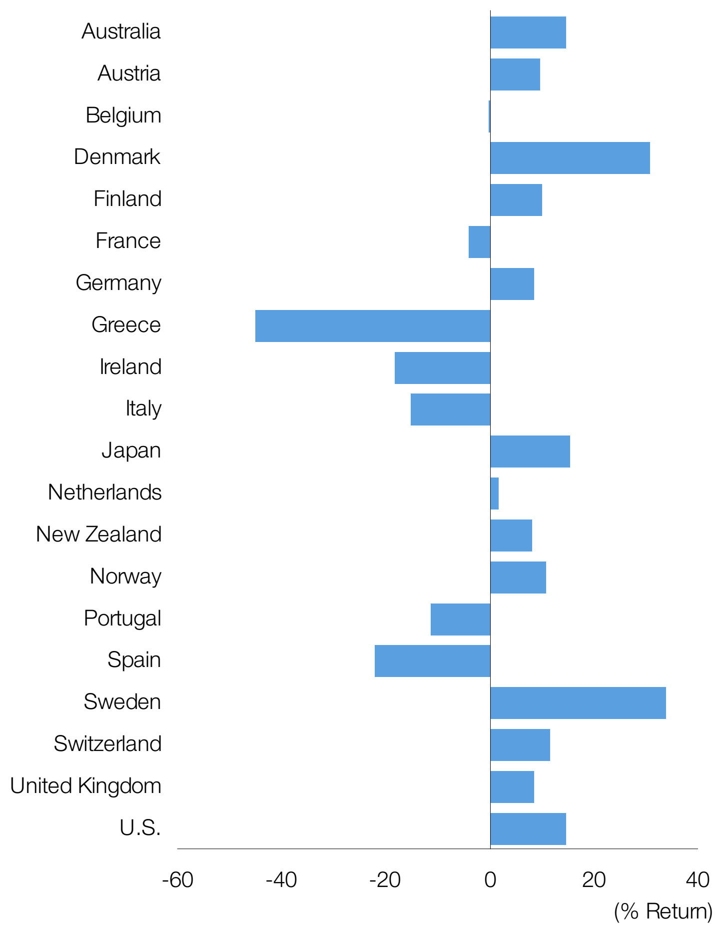
Source: Bloomberg



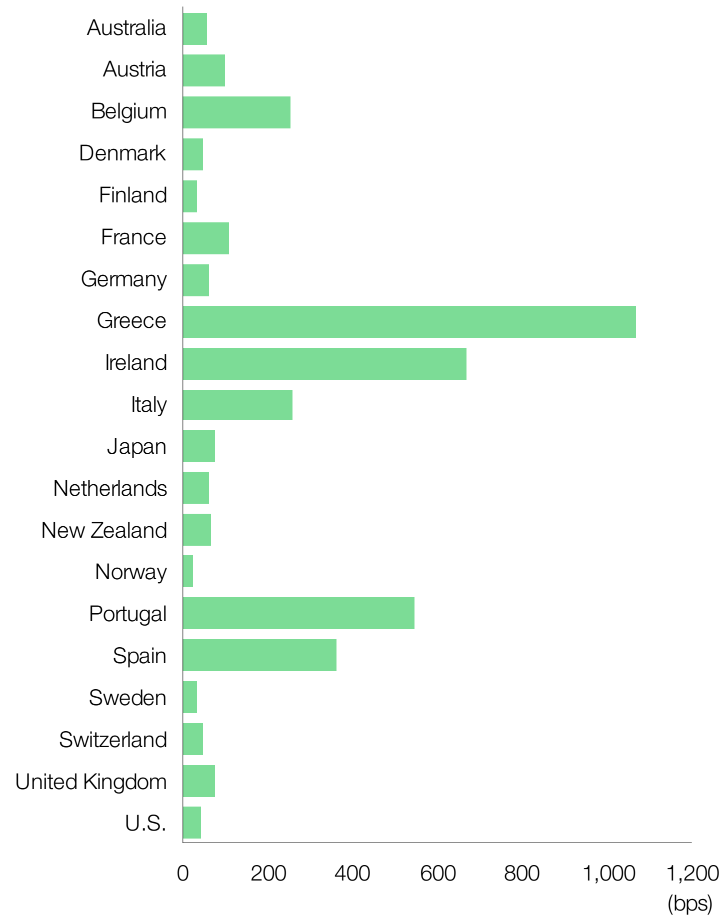
Fiscal Discipline Matters: Disparity Reigns

- Markets have punished nations that have not appropriately managed their fiscal affairs
- Is this a risk or an opportunity?

2010 Equity Return:[1]



5-year CDS Spread:[2]



1 As of 31 December 2010
2 As of 10 January 2011

Performance presented in U.S. dollars. Performance quoted represents past performance. Past performance is not a reliable indicator of future results.

Source: Lazard, MSCI, Bloomberg

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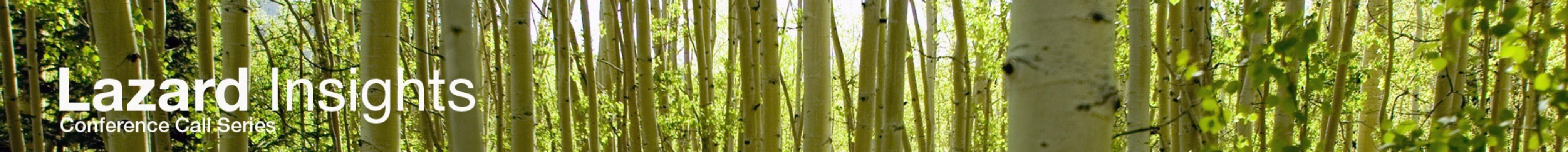

Policy Issues Remain Paramount

Fiscal policy is transforming at a rapid pace

- Fiscal stimulus is no longer viable
- Long-term structural debt reform is a reality for many governments
- Expect debate on the U.S. tax code
- Public pension reform
- Re-evaluation of Obamacare
- Regulatory reform

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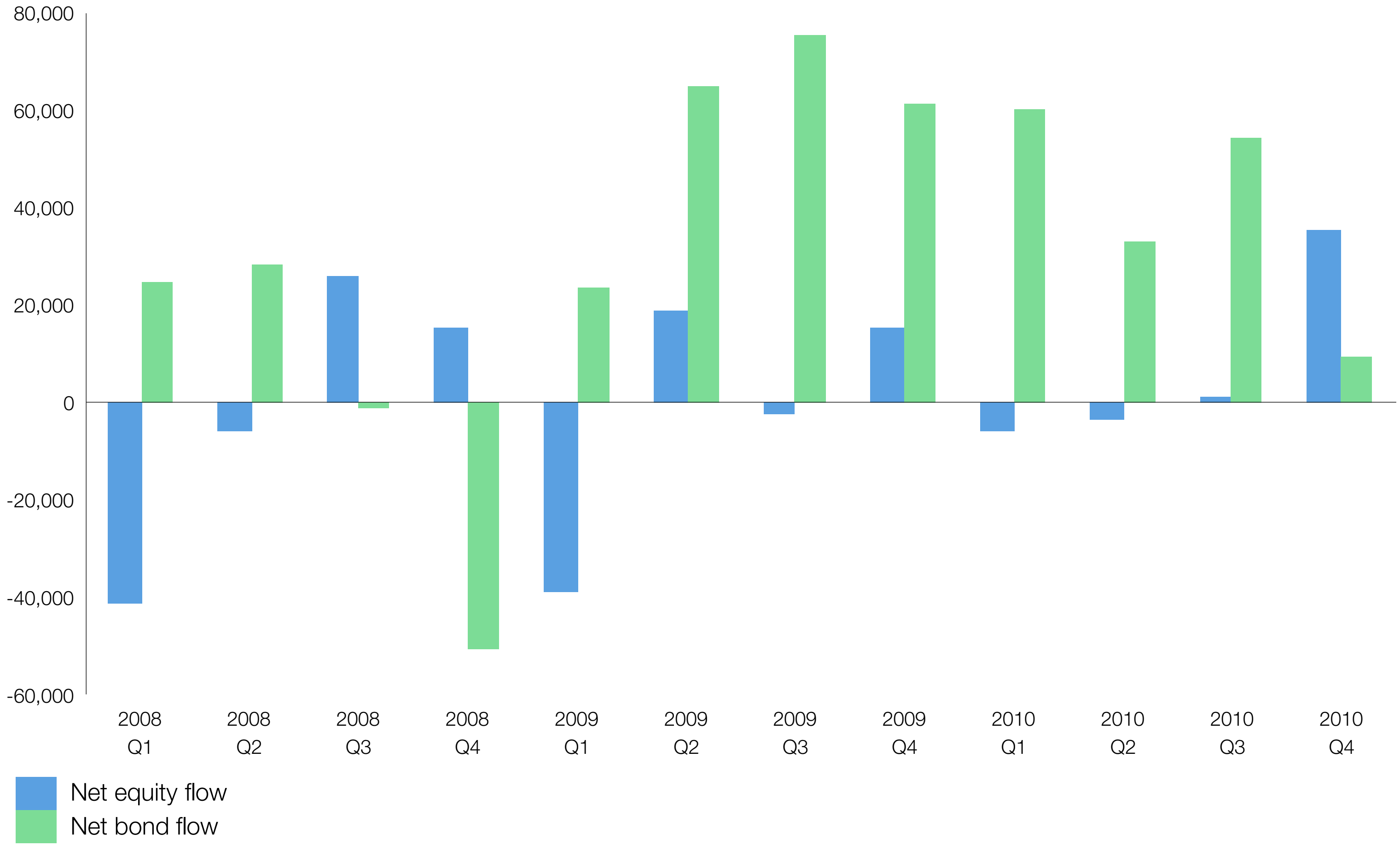
Historic Asset Flows

Investors have used fixed income securities to insure against equity market volatility

Net Investor Flows to Equity and Bond Markets



As of 31 December 2010

Source: Bank of America Merrill Lynch

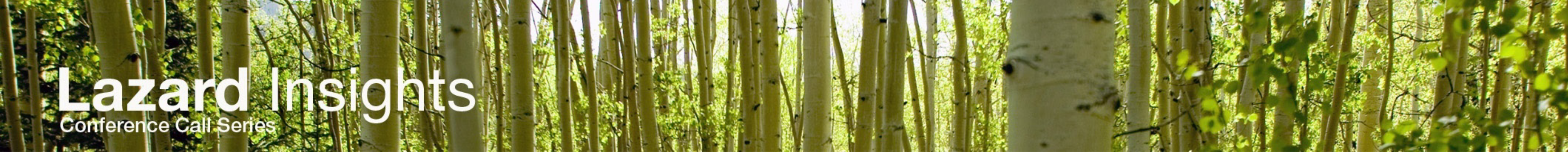
Gold as a Diversification Tool

As the prospects for fixed income investments diminish, utilizing alternative diversification tools will be important

Gold versus Barclays Capital U.S. Aggregate Bond Index

As of 31 December 2010

Source: Bank of America Merrill Lynch



Asset Class Viewpoints

Investors need to employ an active and tactical viewpoint to take advantage of dispersion and volatility

	Attractive		Fair Valued		Unattractive
EQUITY					
Cap		**Large Cap**	**Small Cap** **Mid Cap**		
Region		**U.S.**	**Japan** **United Kingdom** **Asia-Pacific ex-Japan** **Continental Europe**	**Emerging Markets**	
Style	**Non-traditional**		**Value** **Growth**		
FIXED INCOME	**Non-traditional**		**Cash** **Credit**		**Sovereign Debt**

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Non-traditional Investment Ideas

Specialized investments to capture excess return or correlation benefits

- Continued global growth
  - Technology
  - Agribusiness and water
  - Materials
  - Commodity producers
  - Oil and oil and gas services
- Diversification Assets
  - Gold
  - Private sector credit
  - Avoidance of interest rate risk
  - Volatility hedging

Summary

- Improved economic environment validates an increased exposure to equity investments and other growth-oriented assets
- Fixed income markets are increasingly unattractive, as interest rates remain near historical lows and fundamental risks are increasing
- U.S. investments are increasingly attractive among developed-market opportunities
- European debt crisis remains messy, reducing current opportunities for investment
- Although many risks have diminished, pockets of market volatility will be likely in 2011, potentially creating investment opportunities
- Investors need to employ an active and tactical viewpoint to take advantage of dispersion and volatility

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Securities in certain non-domestic countries may be less liquid, more volatile, and less subject to governmental supervision than in one's home market. The values of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, and economic and monetary policy. Emerging market securities carry special risks, such as less developed or less efficient trading markets, a lack of company information, and differing auditing and legal standards. The securities markets of emerging market countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in emerging market countries.

An investment in bonds carries risk. If interest rates rise, bond prices usually decline. The longer a bond's maturity, the greater the impact a change in interest rates can have on its price. If you do not hold a bond until maturity, you may experience a gain or loss when you sell. Bonds also carry the risk of default, which is the risk that the issuer is unable to make further income and principal payments. Other risks, including inflation risk, call risk, and pre-payment risk, also apply. Securities in certain non-domestic countries may be less liquid, more volatile, and less subject to governmental supervision than in one's home market. The values of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, and economic and monetary policy.

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