

# Turbulent Times:

## A Private Bank's Perspective

November 12, 2011

Jared S. Keyes  
Partner

212.493.8803  
Jared.keyes @bbh.com



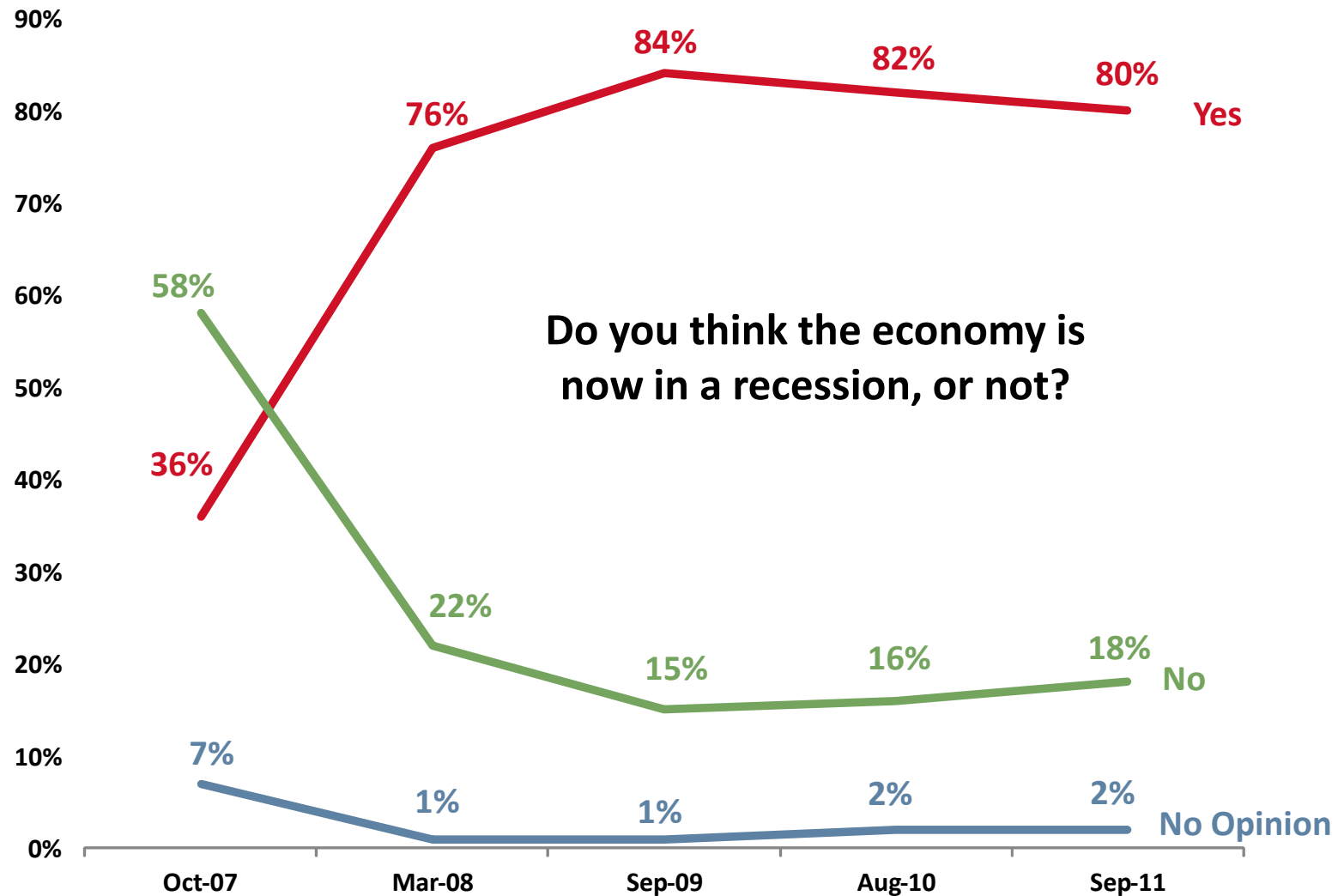
BROWN   
BROTHERS  
HARRIMAN

- Brown Brothers Harriman (BBH) was founded in 1818 and remains the oldest continuously operated partnership in the United States. BBH is wholly owned by 40 general partners who assume unlimited liability for the obligations of the firm, and who are caretakers of an enduring tradition of integrity, responsiveness, and superior execution that has lasted for almost 200 years.
- As a private partnership, BBH's stability is rare in today's business environment. Other than the selection of new partners or partner retirements, there have been no material structural changes to the firm since our 1931 merger with W.A. Harriman & Co. BBH has grown organically, providing our clients with a stable and predictable business environment. There are no plans to change this structure.
- Today, BBH's approximately 4,000 employees are organized into three integrated business units: Investor Services, Banking and Advisory, and **Investment and Wealth Management**.



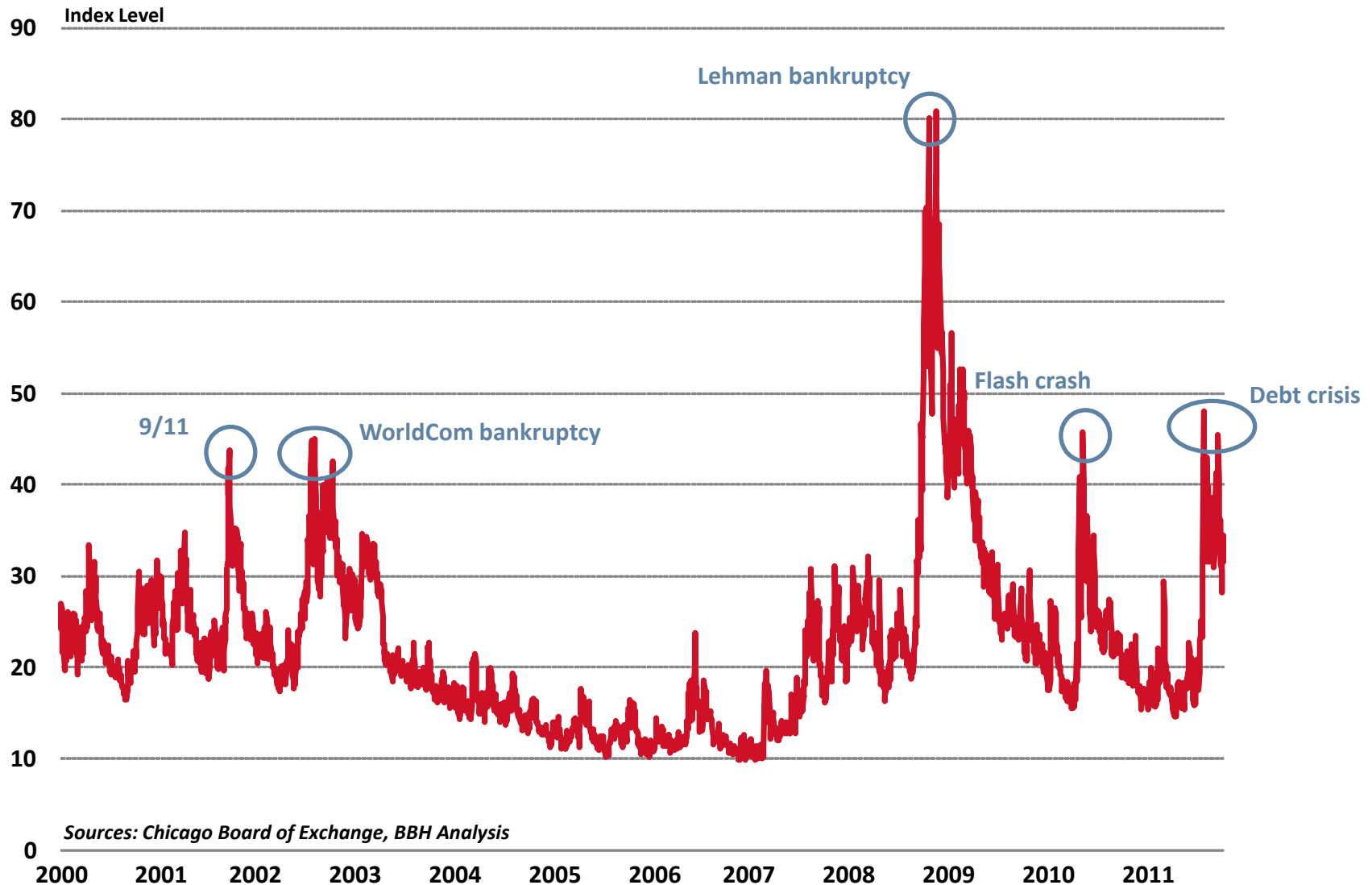
# Measures of Risk Aversion

USA Today/Gallup Polls



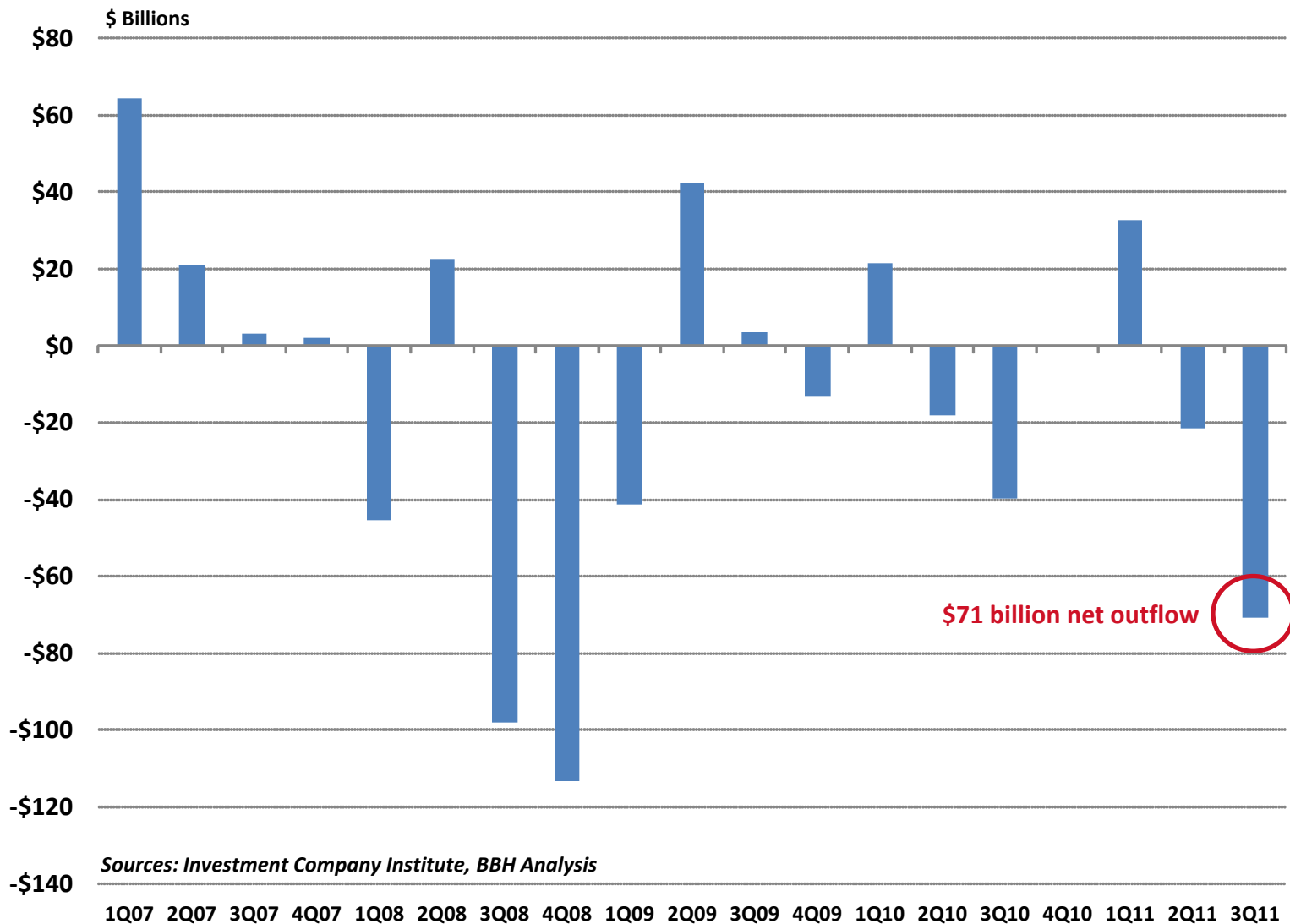
# Measures of Risk Aversion

## CBOE Volatility Index (VIX)



# Measures of Risk Aversion

## Equity Mutual Fund Flows



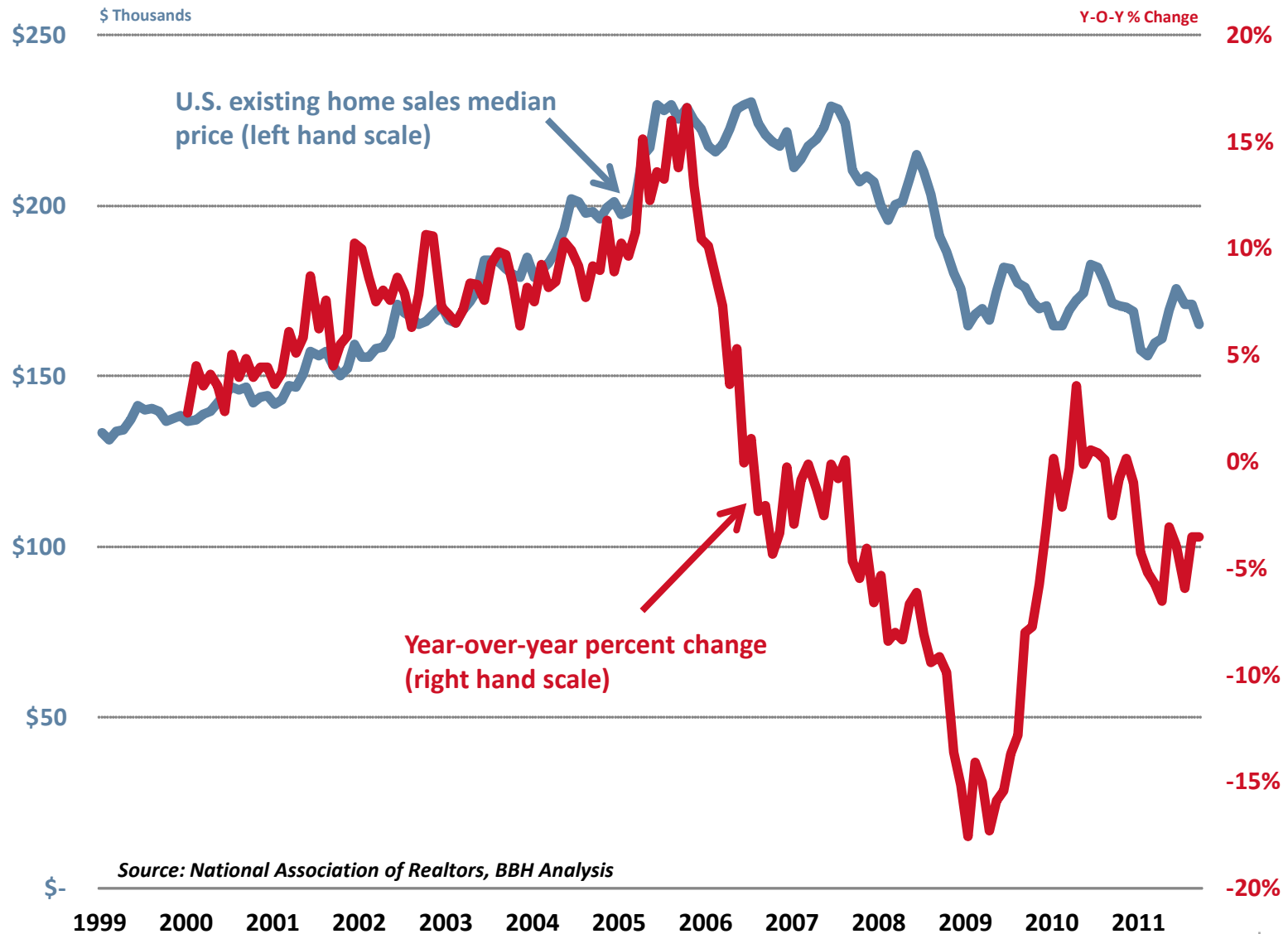
# Measures of Risk Aversion

## High Yield Credit Spreads



# Measures of Reality

## Housing Prices



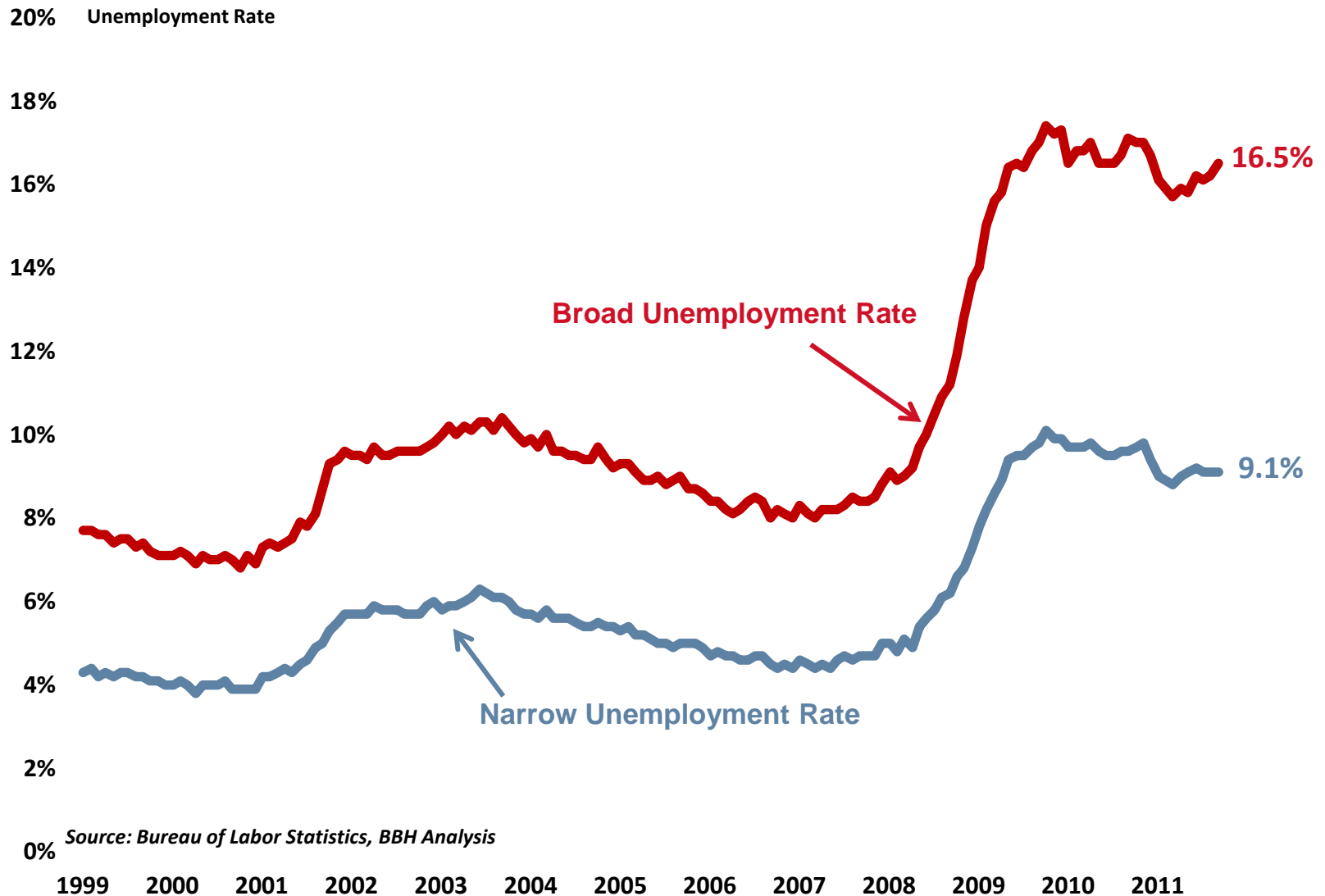
# Measures of Reality

## *Regional Improvement in Housing*



# Measures of Reality

## Unemployment Rates



# Measures of Reality

## *The Composition of the Labor Market*

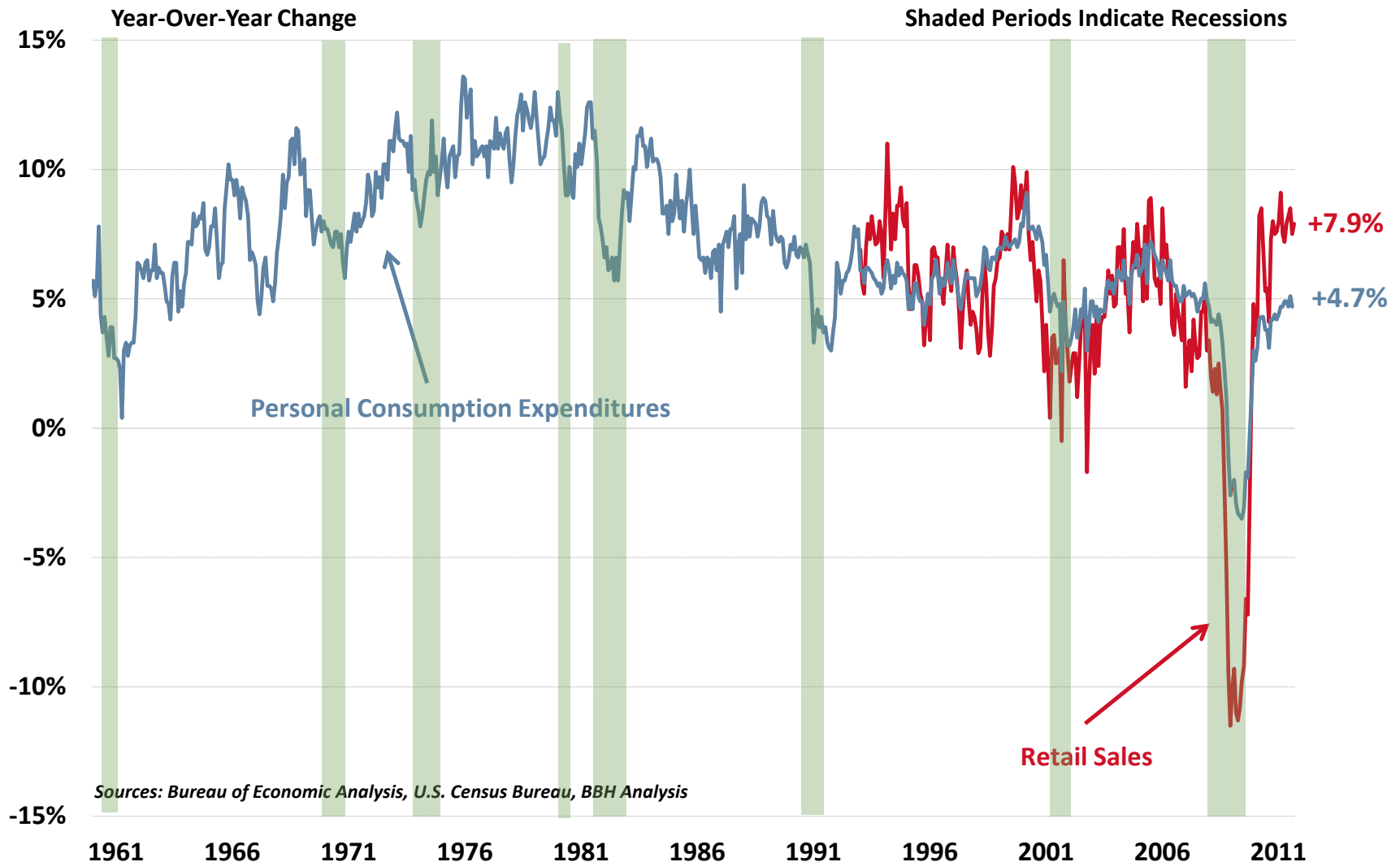
(Jobs figures in 000s) Economic Sector	September 2011 Employment Data		Change in Employment	
	Total Jobs	% of Total	Month-over-Month	Year-over-Year
<b>Goods Producing Sectors</b>				
Manufacturing	11,741	9%	-13	196
Construction	5,551	4%	26	37
Mining & Logging	805	1%	5	80
<b>Total Goods Producing Sectors</b>	<b>18,097</b>	<b>14%</b>	<b>18</b>	<b>313</b>
<b>Service Providing Sectors</b>				
Trade, transportation & utilities	24,952	19%	7	325
Government	21,985	17%	-34	-289
Education & health services	20,081	15%	45	450
Professional & business service	17,280	13%	48	561
Leisure & hospitality	13,223	10%	-4	120
Financial Activities	7,603	6%	-8	-13
Other services	5,453	4%	-3	64
Information	2,660	2%	34	-41
<b>Total Service Providing Sectors</b>	<b>113,237</b>	<b>86%</b>	<b>85</b>	<b>1,177</b>
<b>Total Economy</b>	<b>131,334</b>	<b>100%</b>	<b>103</b>	<b>1,490</b>

**1.8 million new private sector jobs created in the past year**

Source: Bureau of Labor Statistics, Non-Farm Payroll Data, Table B-1

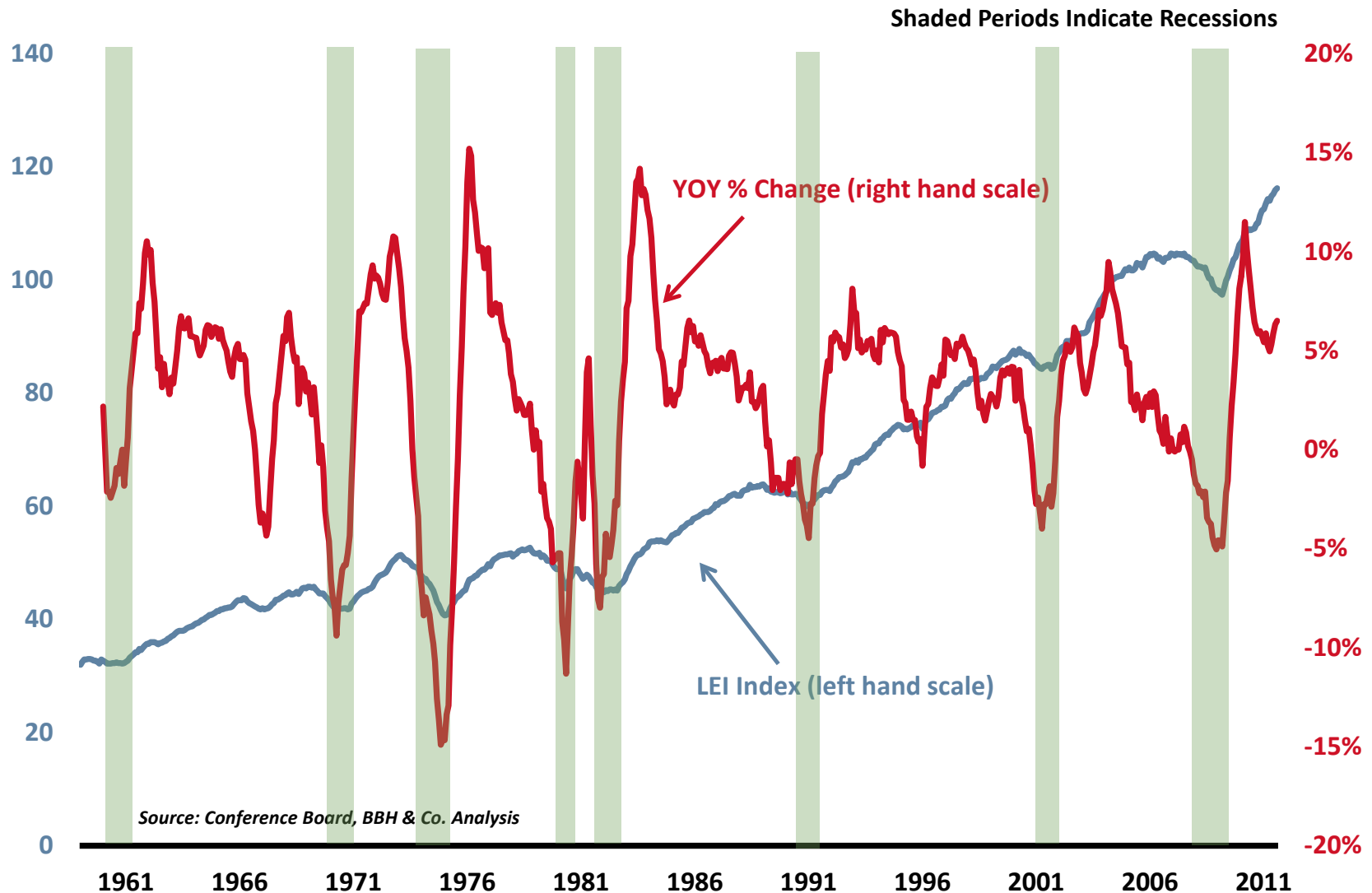
# Measures of Reality

## Personal Consumption



# Measures of Reality

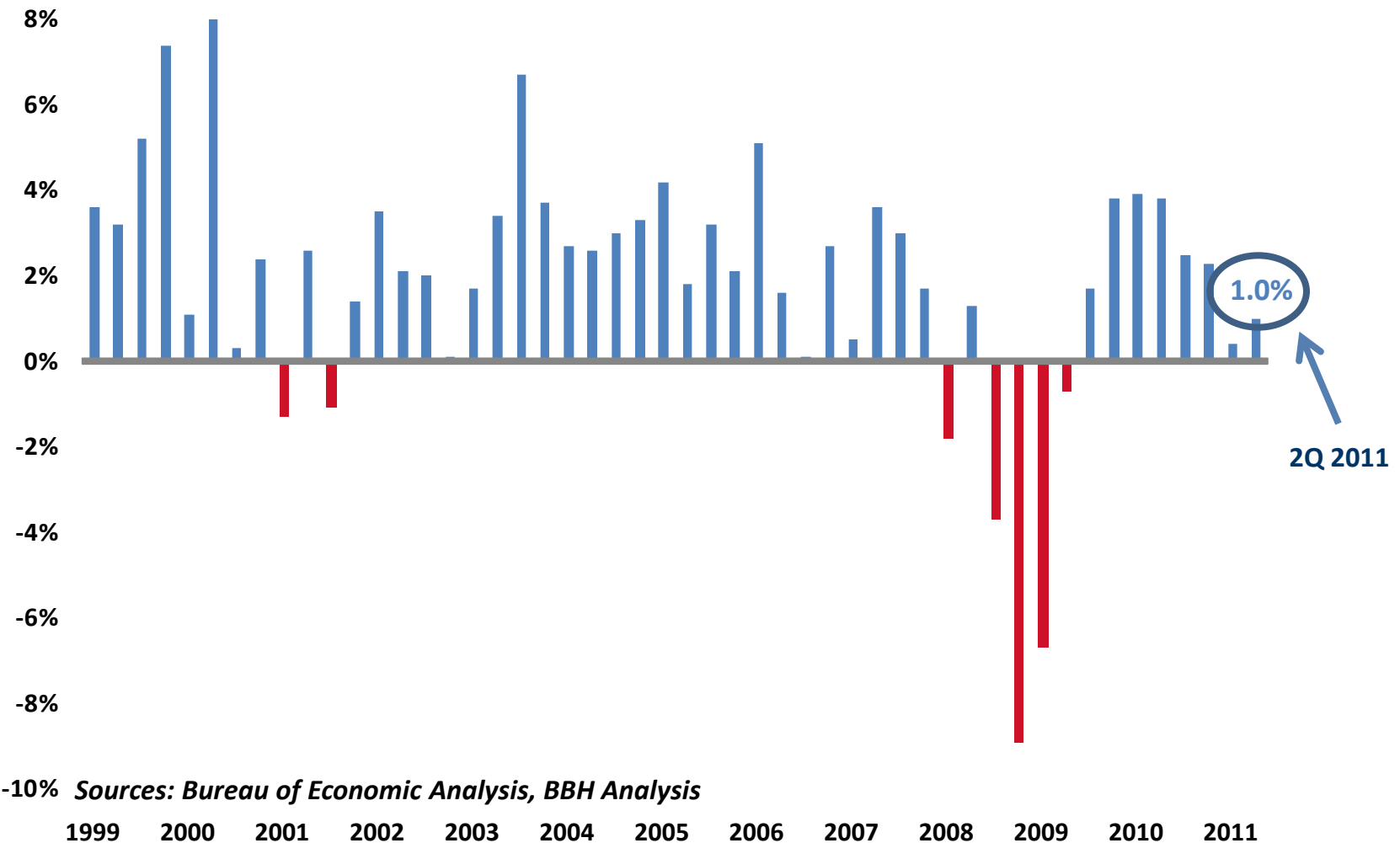
## Leading Economic Indicators



# Economic Scorecard

## U.S. Real Gross Domestic Product

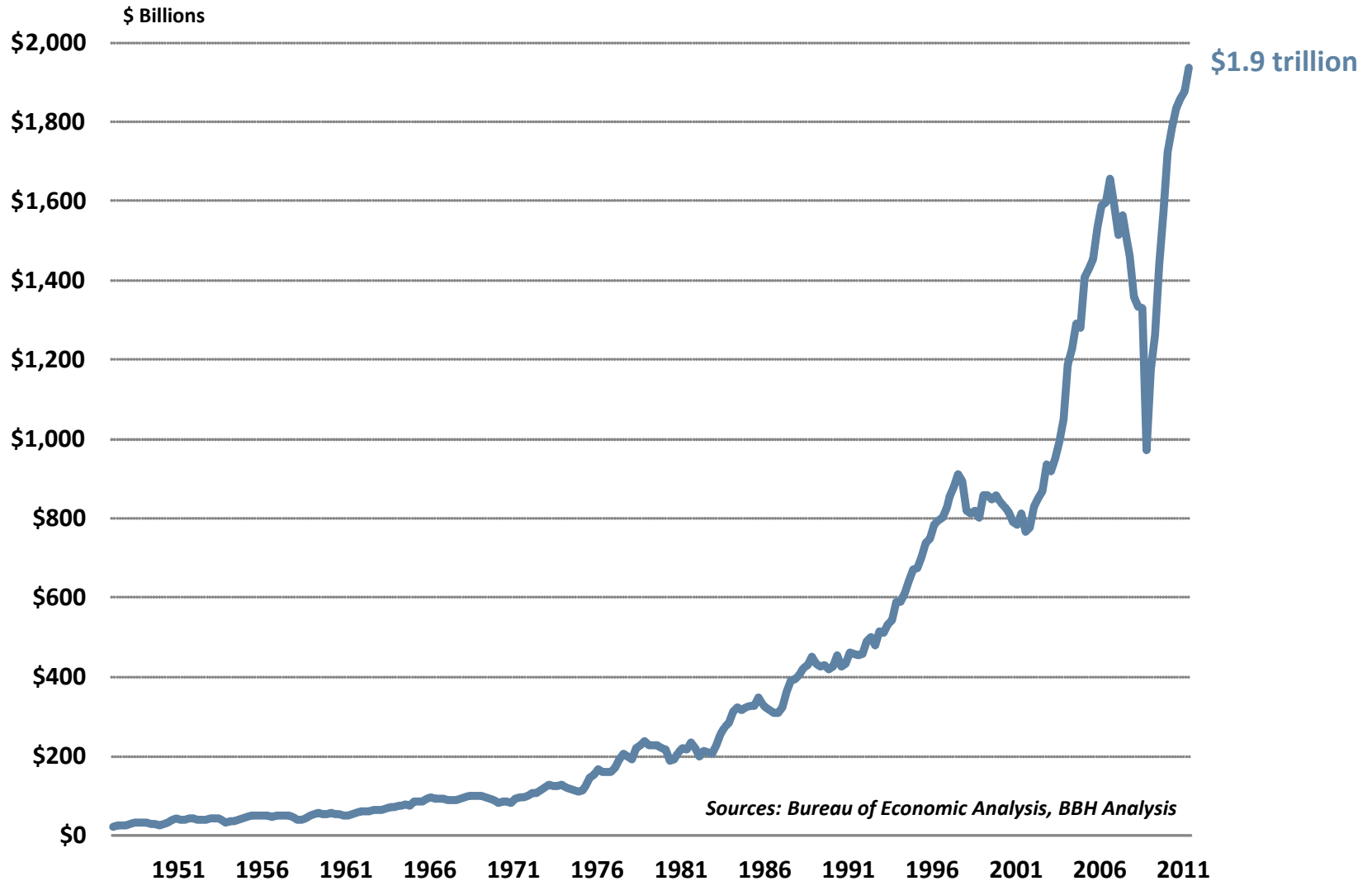
### 10% Quarter-over-Quarter Growth, Annualized



-10% Sources: Bureau of Economic Analysis, BBH Analysis

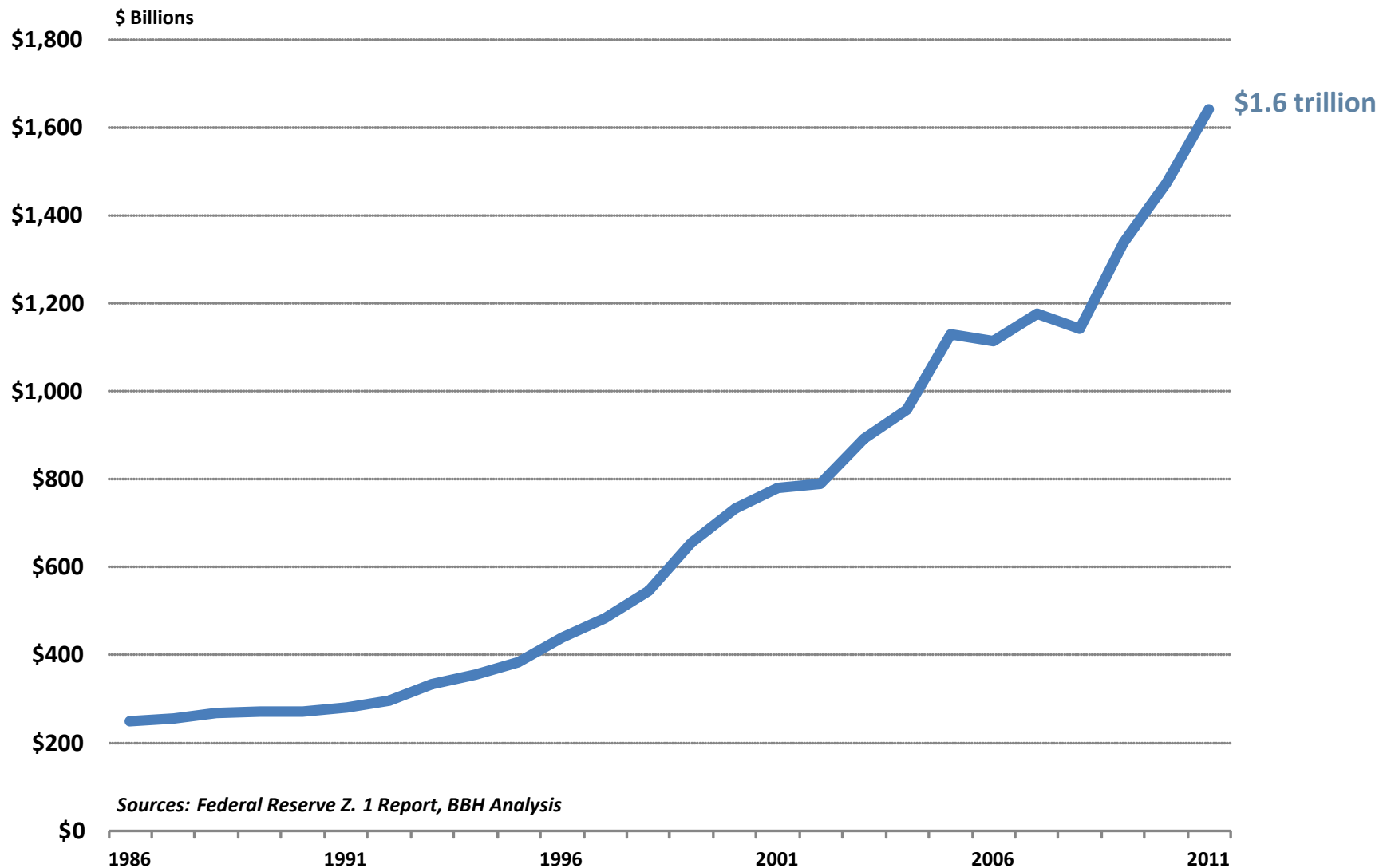
# Measures of Reality

## Corporate Earnings



# Measures of Reality

## Cash on Corporate Balance Sheets



# China

## *Why we should care – Share of World Commodity Consumption*

Commodity	China % of World
Cement	53.2%
Iron Ore	47.7%
Coal	46.9%
Pigs	46.4%
Steel	45.4%
Lead	44.6%
Zinc	41.3%
Aluminum	40.6%
Copper	38.9%
Eggs	37.2%
Nickel	36.3%
Rice	28.1%
Soybeans	24.6%

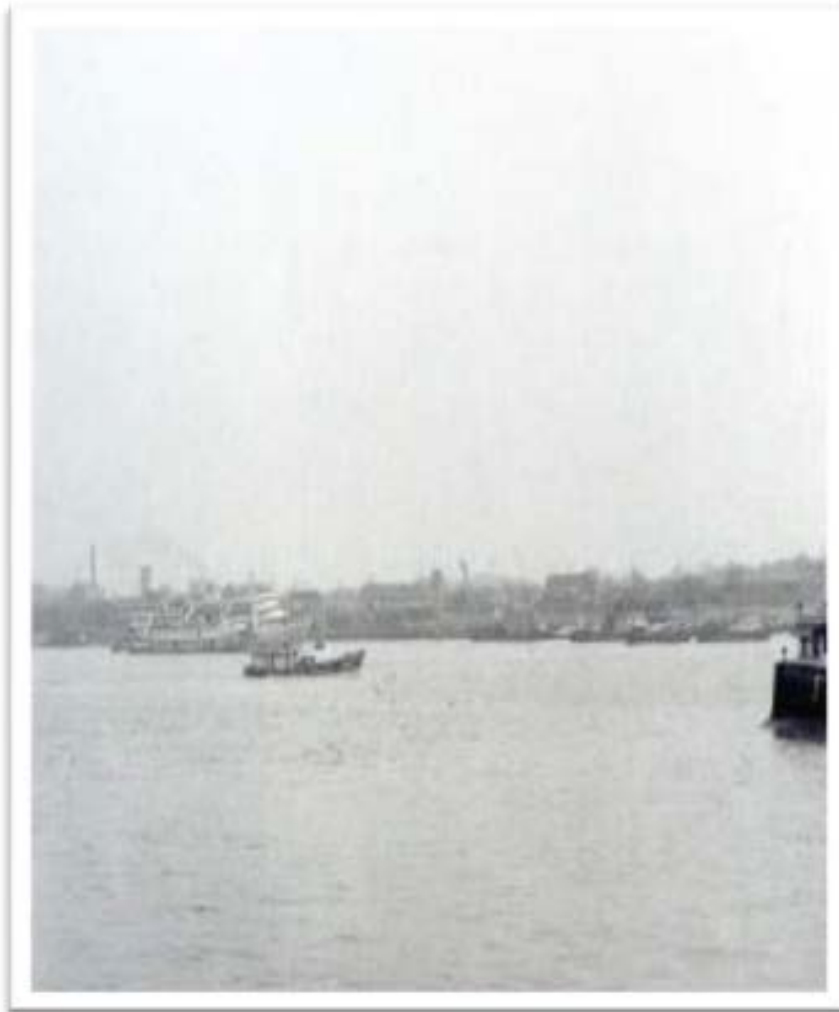
Source - GMO



# Shanghai in 2010

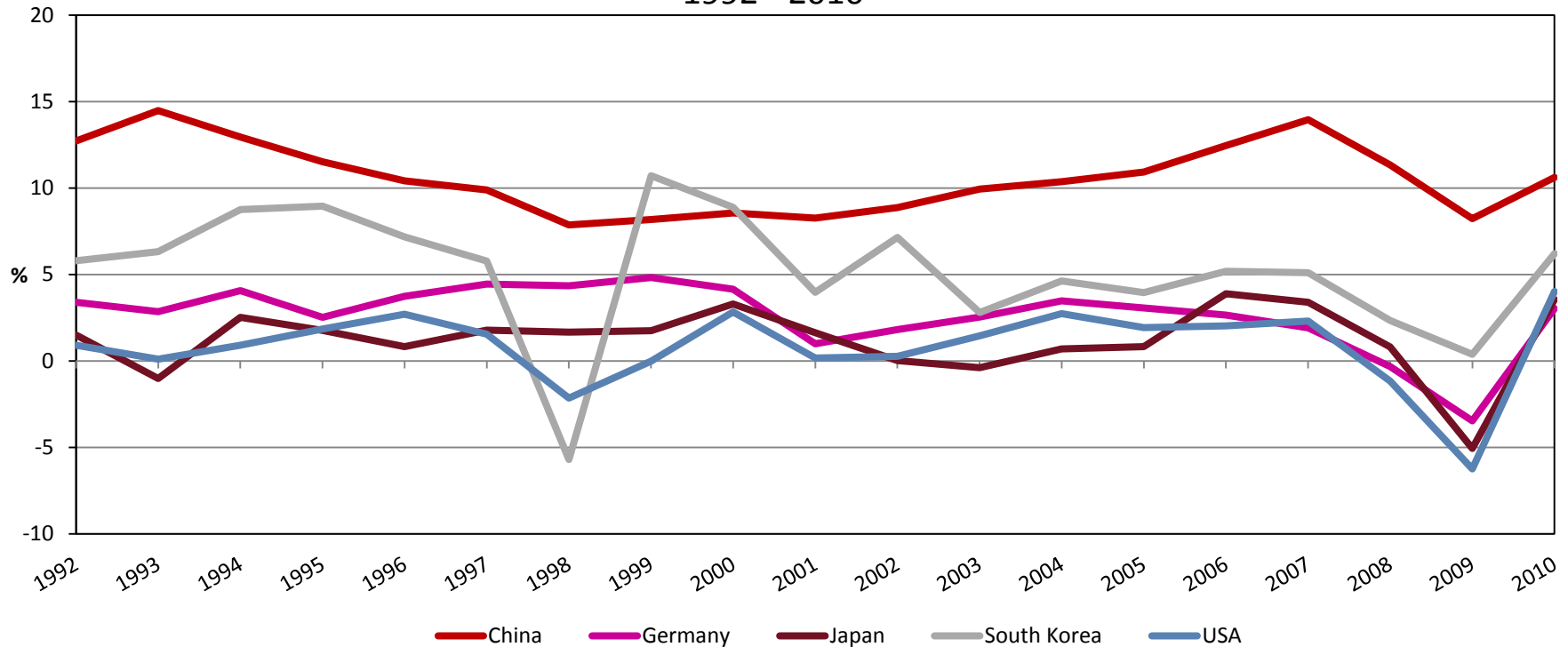


Pudong section of Shanghai,  
circa 2010



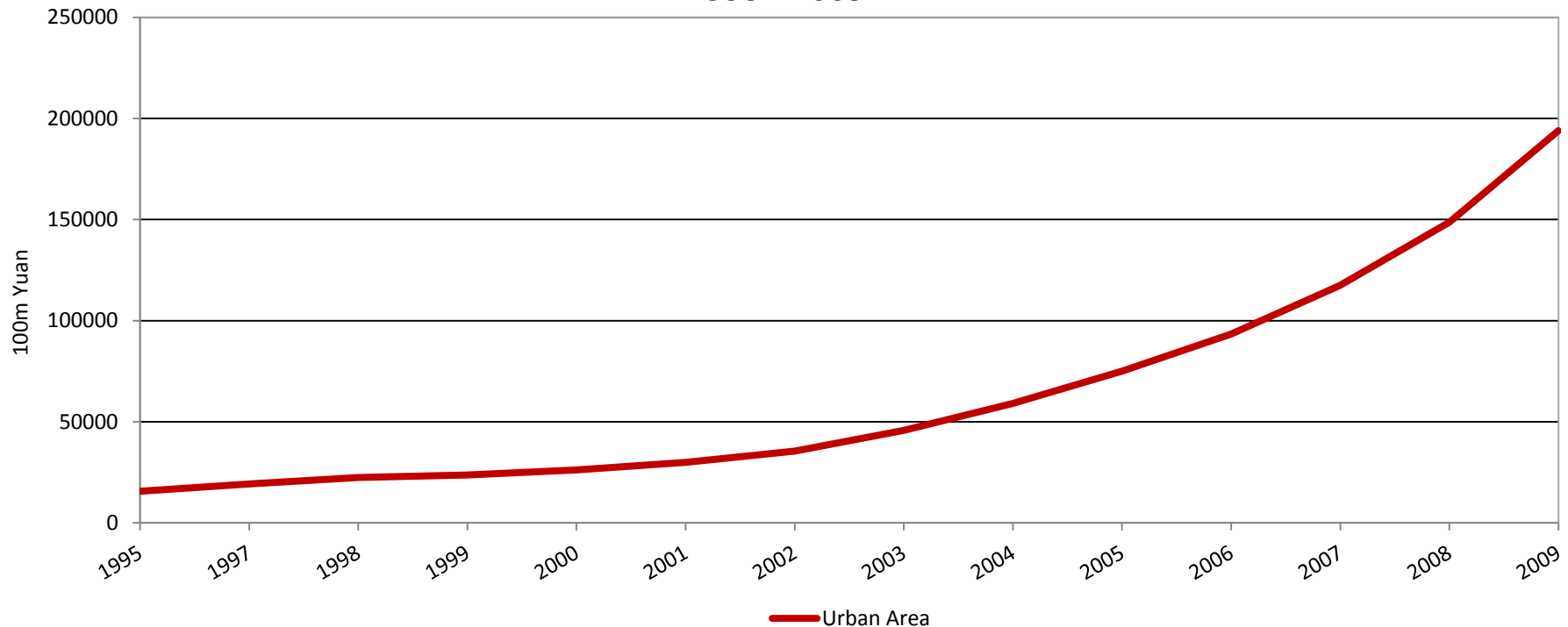
**Pudong section of Shanghai,  
circa 1980**

Year-on Year GDP Growth  
1992 - 2010



- China economic growth continues to lead the world, at around a 10% annual real growth rate of GDP
- Massive government stimulus in 2008/9 kept growth strong even during the Global Financial Crisis
- China GDP growth has slowed recently, to 9.1% per annum as of Q3 2011, and is expected to slow further

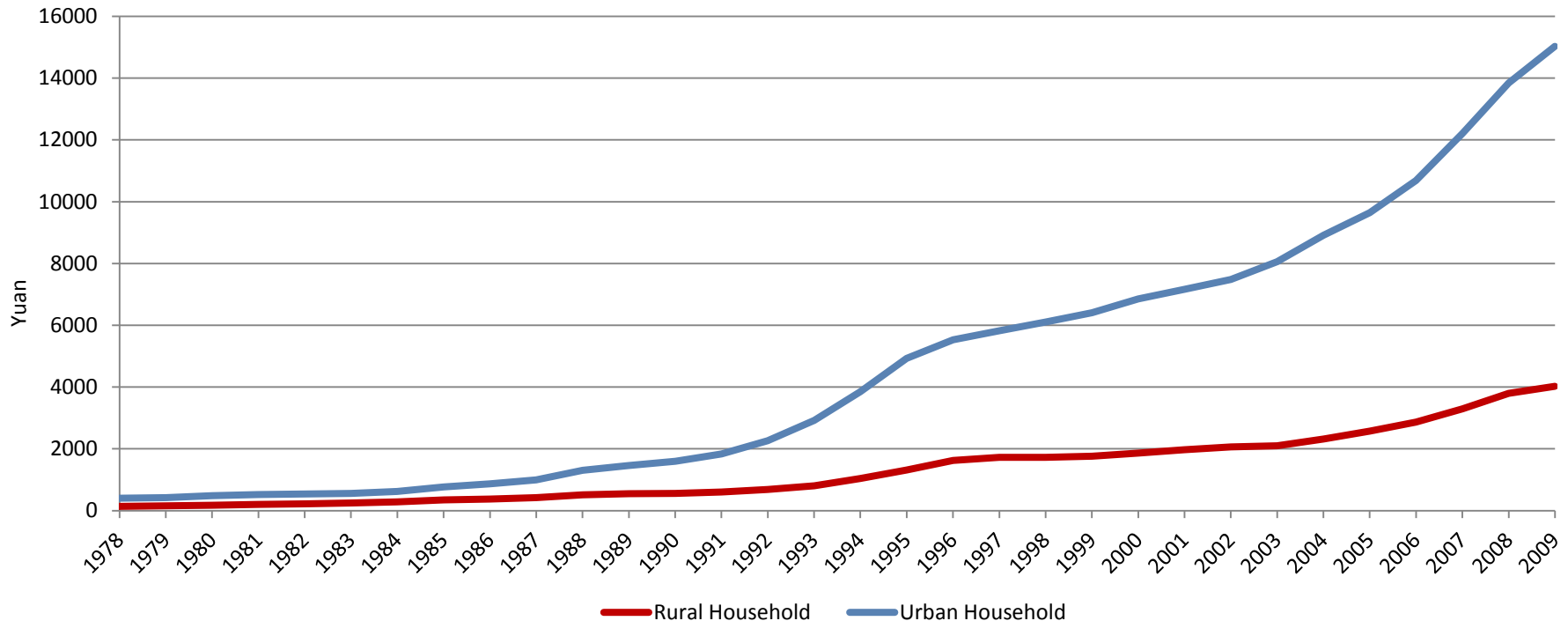
Fixed Asset Investment: Urban Areas  
1995 - 2009



- Growth has been driven largely by fixed investment in real estate and infrastructure projects
- With export growth lagging since the global recession, the need for the government to invest to support the economy became even more acute

# Personal Consumption Growth

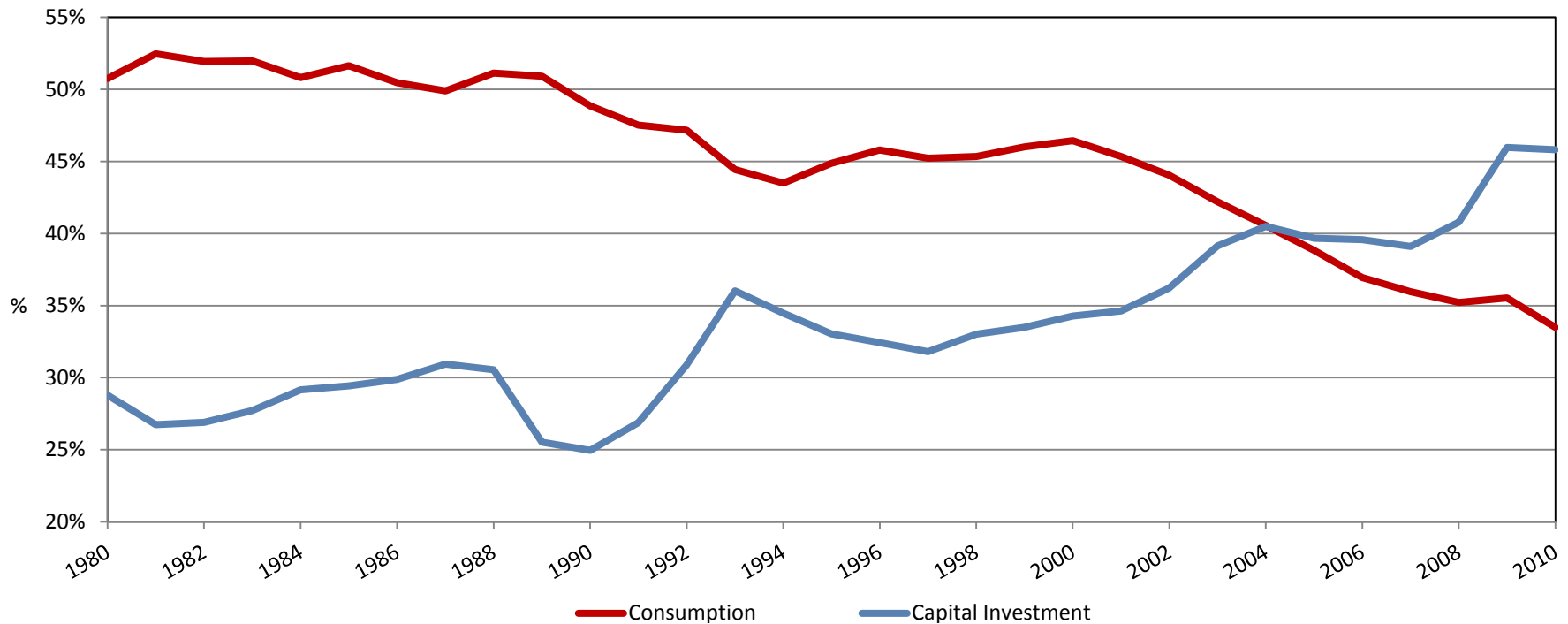
Household Consumption Expenditure  
1978 - 2009



- Increasing urbanization and higher wage jobs have produced meaningful gains in personal consumption
- Since 1980, urban consumption per capita has grown at a 12.5% compound rate, while rural consumption has compounded at 11.3%

# Consumption & Investment as a Share of GDP

Consumption & Investment as a Share of GDP  
1980 - 2010



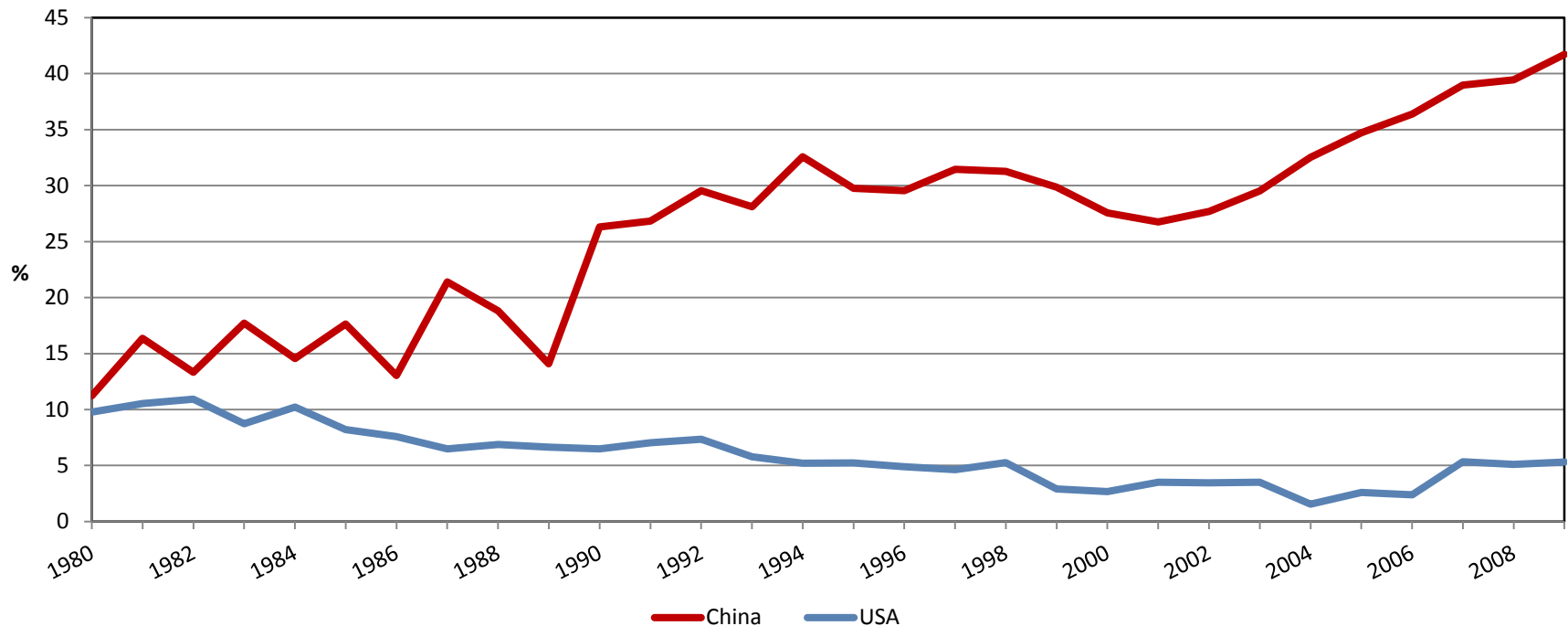
- Even with strong consumption growth, the extensive infrastructure and real estate investment have increased as a percent of GDP, leaving a materially imbalanced economy
- Premier Wen has referred to the economy as “unbalanced, unstable, uncoordinated, and unsustainable”

# Kangbashi – Ghost Town

%



Personal Savings Rates\*  
1980 - 2009



- The lack of a “social safety net” has historically forced Chinese to be savers instead of consumers
- The government is focused on instituting programs to stimulate consumption demand
- Specific areas of focus include developing retirement programs including social security, improving healthcare, making insurance more affordable, and expanding educational and training opportunities

Source: CEIC, St. Louis Fed

\* As a percentage of disposable personal income

©2011 Brown Brothers Harriman & Co. Confidential & Proprietary. Not to be reproduced without the explicit consent of BBH & Co. "BBH & Co." is a registered service mark of Brown Brothers Harriman & Co. "BBH" is a service mark of Brown Brothers Harriman & Co.



# European Debt Crisis – Grecian Headache

%



Source: CEIC

without the explicit consent of BBH & Co.  
the mark of Brown Brothers Harriman & Co.

# What European Debt Crisis?

%



Source: CEIC

without the explicit consent of BBH & Co.  
the mark of Brown Brothers Harriman & Co.

# Turbulent Times:

## A Private Bank's Perspective

November 12, 2011

Jared S. Keyes  
Partner

212.493.8803  
Jared.keyes @bbh.com



BROWN   
BROTHERS  
HARRIMAN