

Five Years Later ...

A Review of the Economy and Financial Markets

Brown Brothers Harriman & Co.

November 16

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Partner



BROWN 
BROTHERS
HARRIMAN

Brown Brothers Harriman Snapshot

Brown Brothers Harriman is a global financial institution with over 4,600 employees in 17 offices around the world. The firm serves the most discerning and sophisticated entrepreneurs, executives, and with expertise in **Wealth Management, Corporate Banking, Mergers & Acquisitions Advisory, and Private Equity Investing**. These combines activities we call **Private Banking**.

About Private Banking

Assets under management: \$22.4 billion*

Business Loans: \$1.3 billion

Clients we serve:

- Private Business Owners
- Commodity Traders/Processors
- Business Executives
- Families of Substantial Wealth

Client Liquid Wealth Minimum: \$10 million

Business Loan Minimum: \$5-10 million

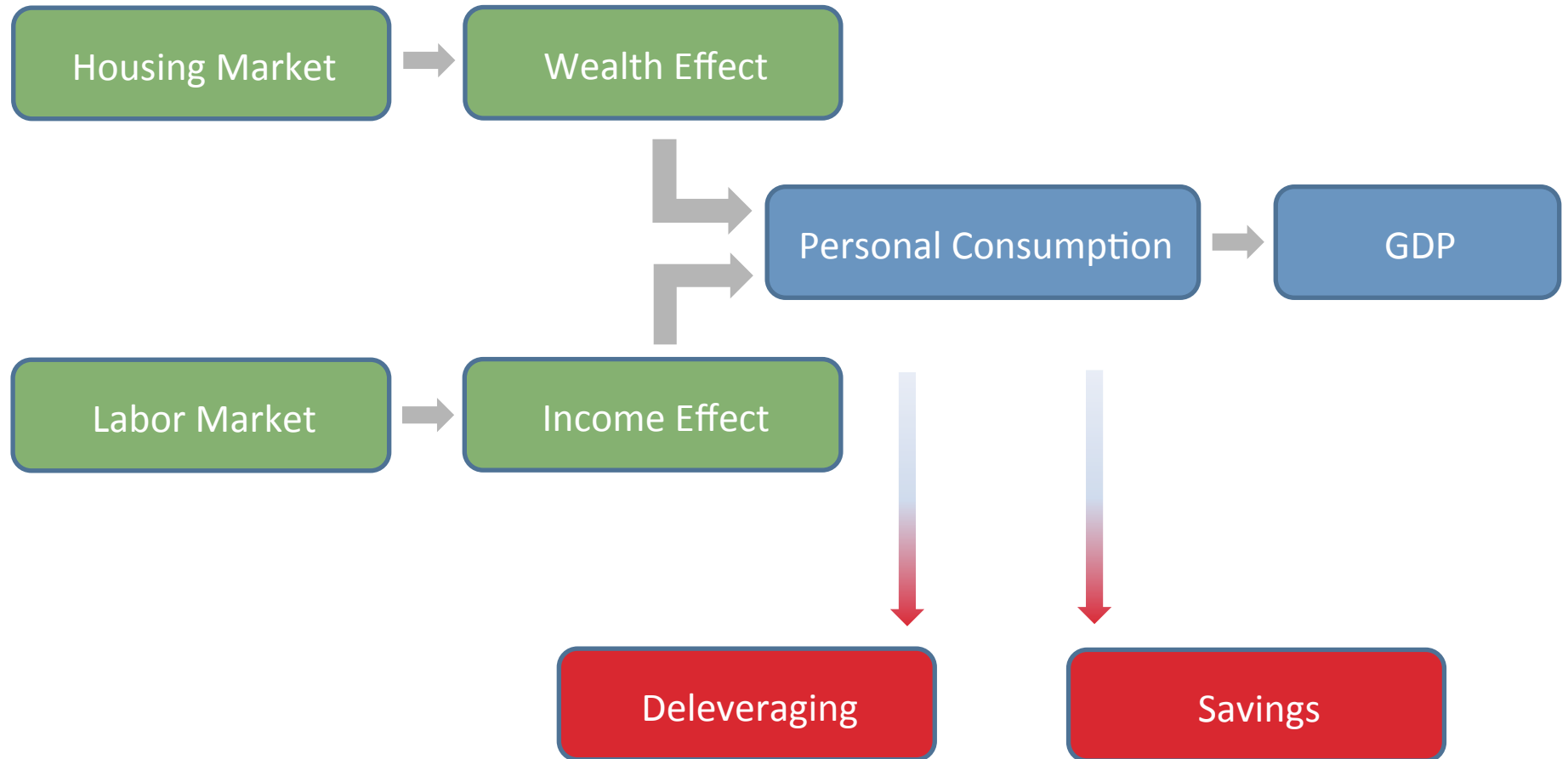
Average client size: \$17 million

Locations: New York, Boston, Charlotte, Chicago, Philadelphia, Wilmington

**As of June 30, 2013*

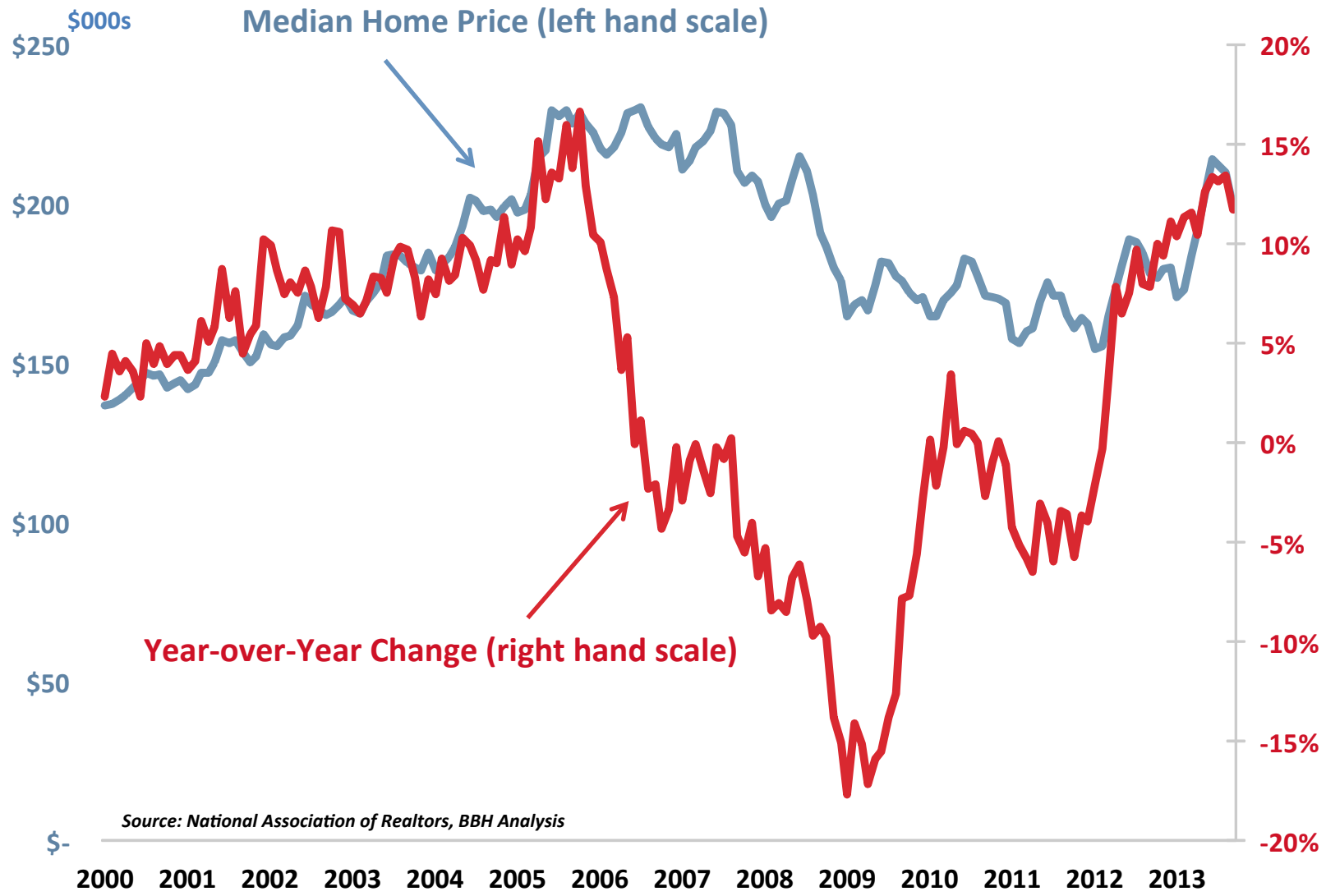


Roadmap of the Domestic Economy



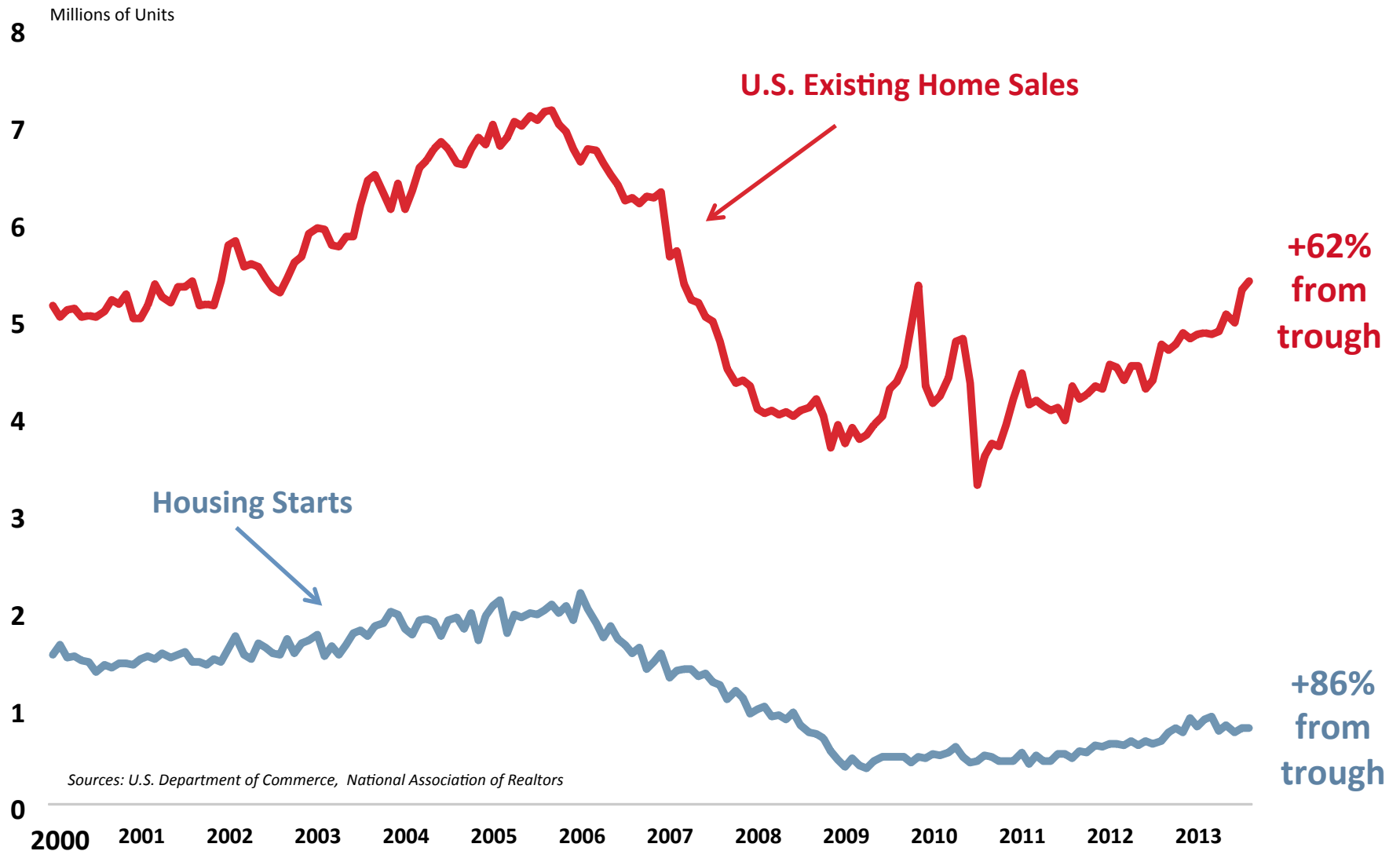
The Housing Market

Average Home Price is up 11.7% Since Last Year ...



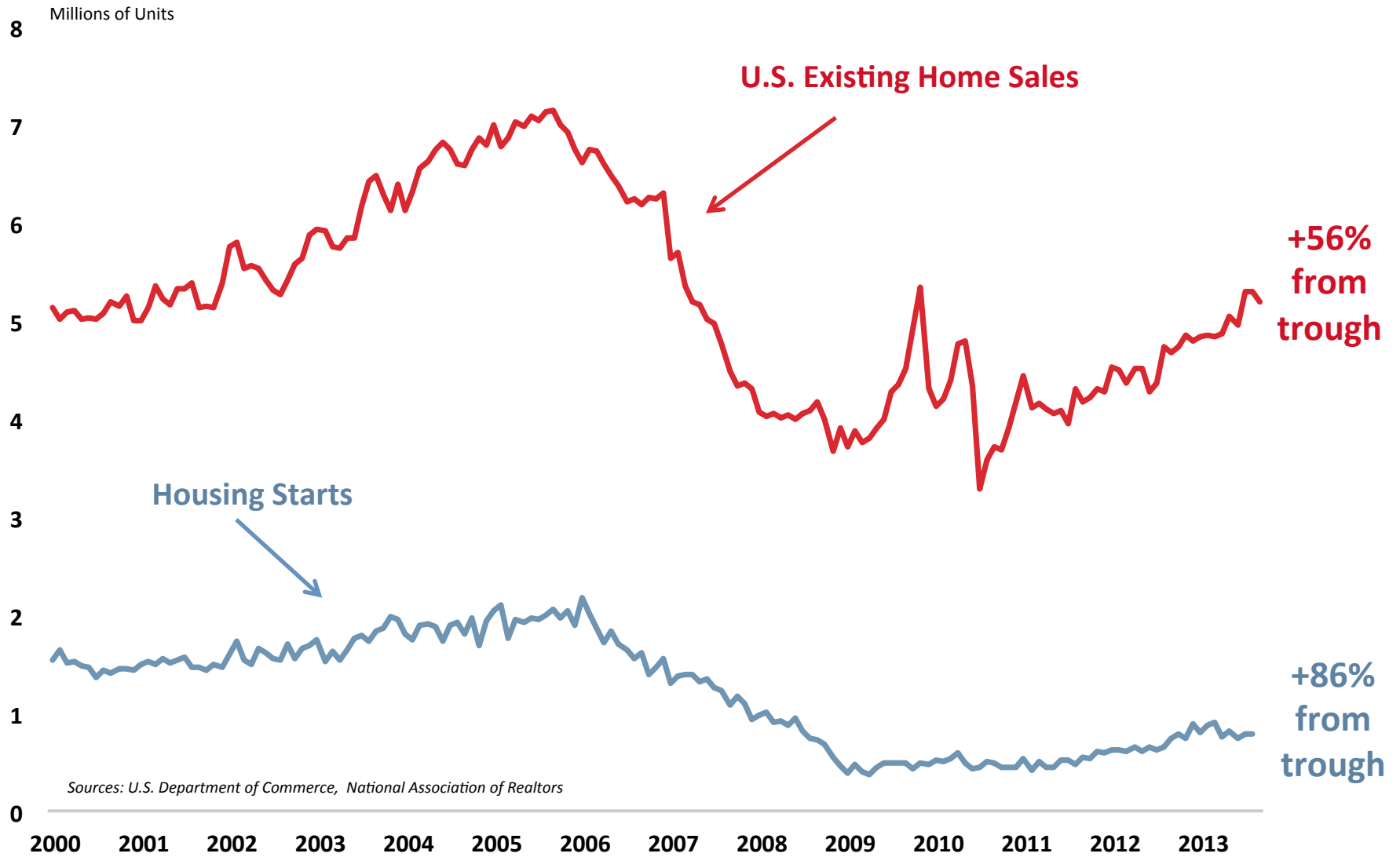
The Housing Market

... and Home Sales and Starts have Recovered Meaningfully



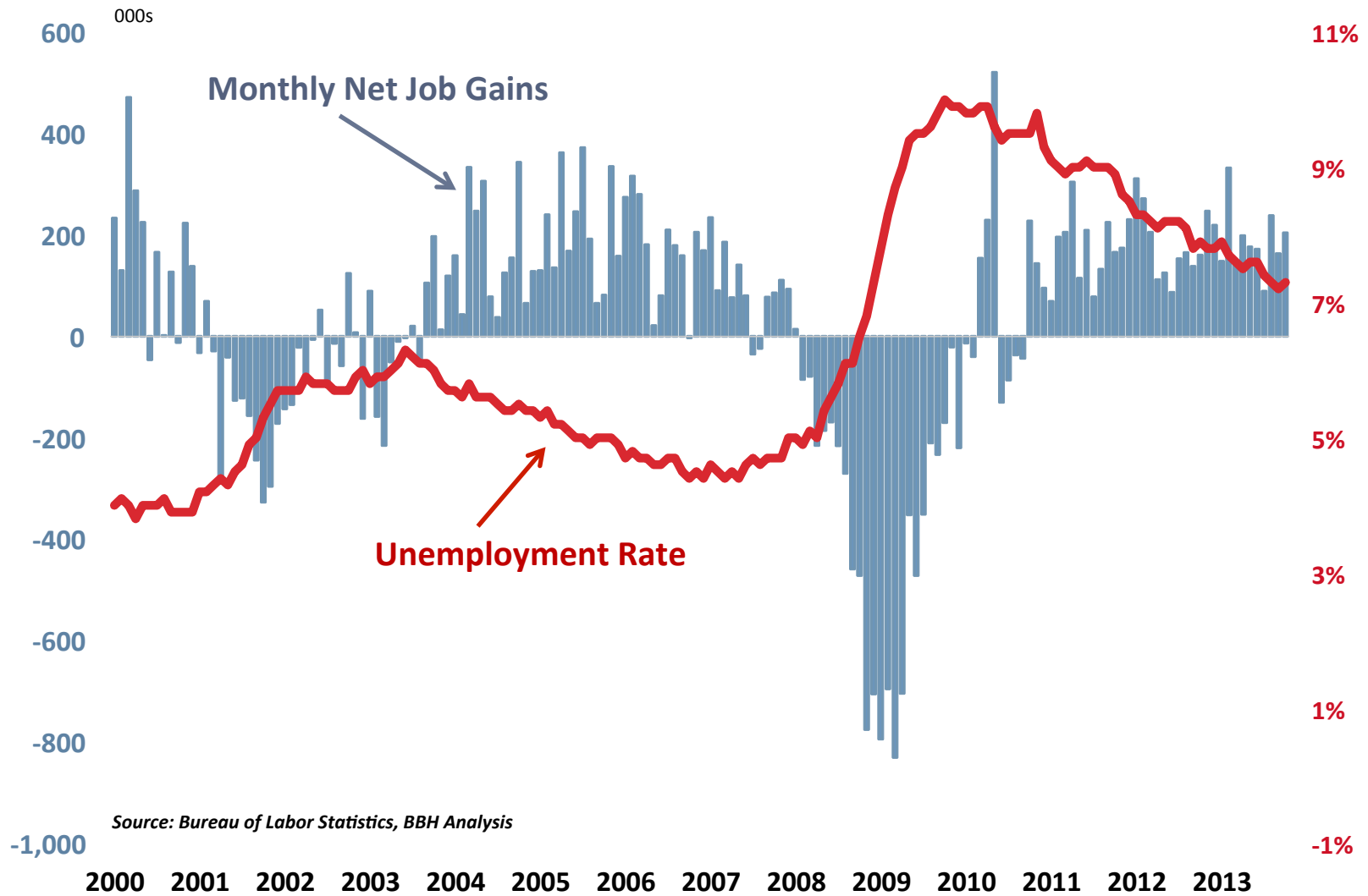
The Housing Market

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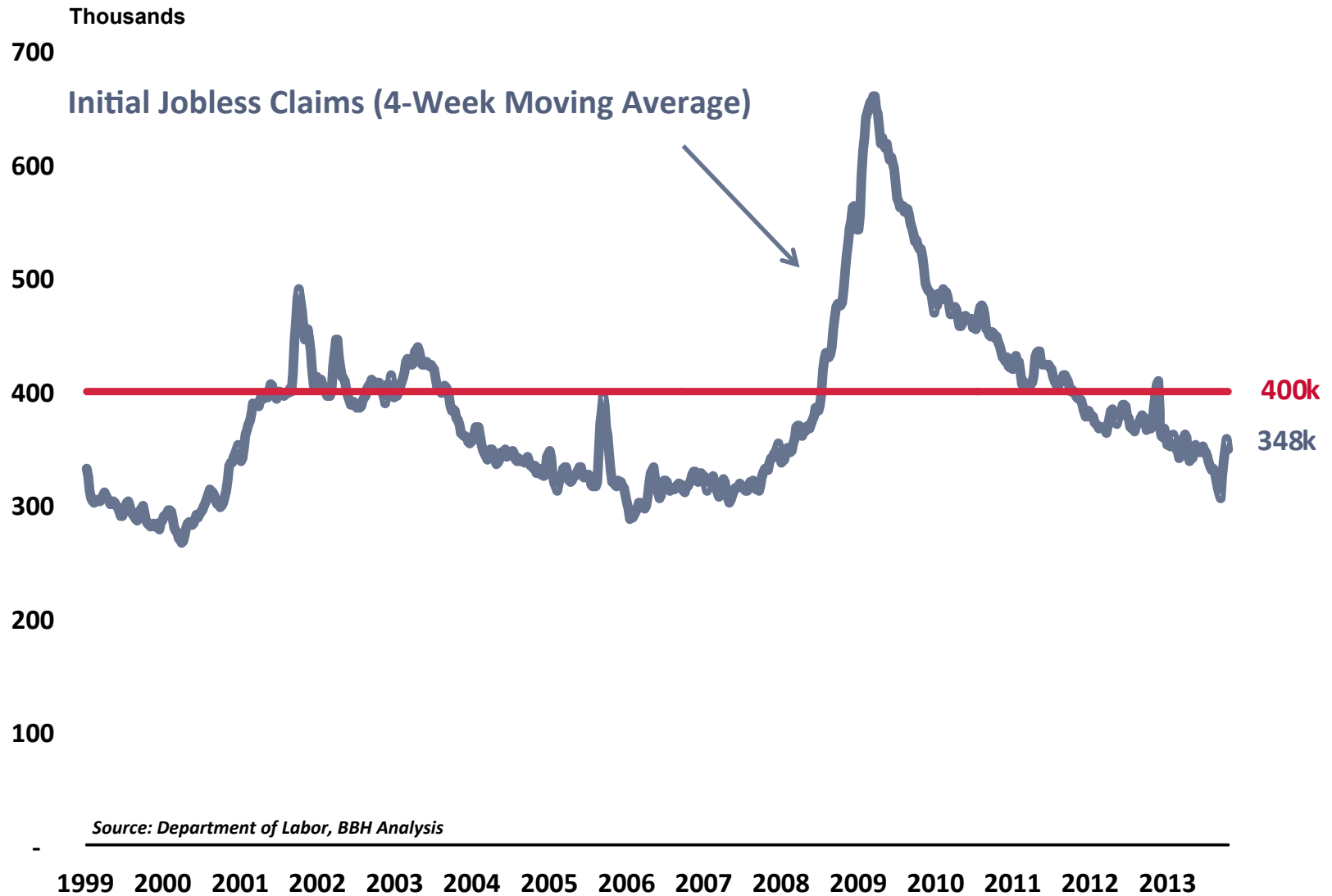
The Labor Market

Unemployment Down to 7.3% ...



The Labor Market

... And First Time Claims Below 400,000 Since October 2011



Composition of Employment Gains

Updated: 8 November 2013

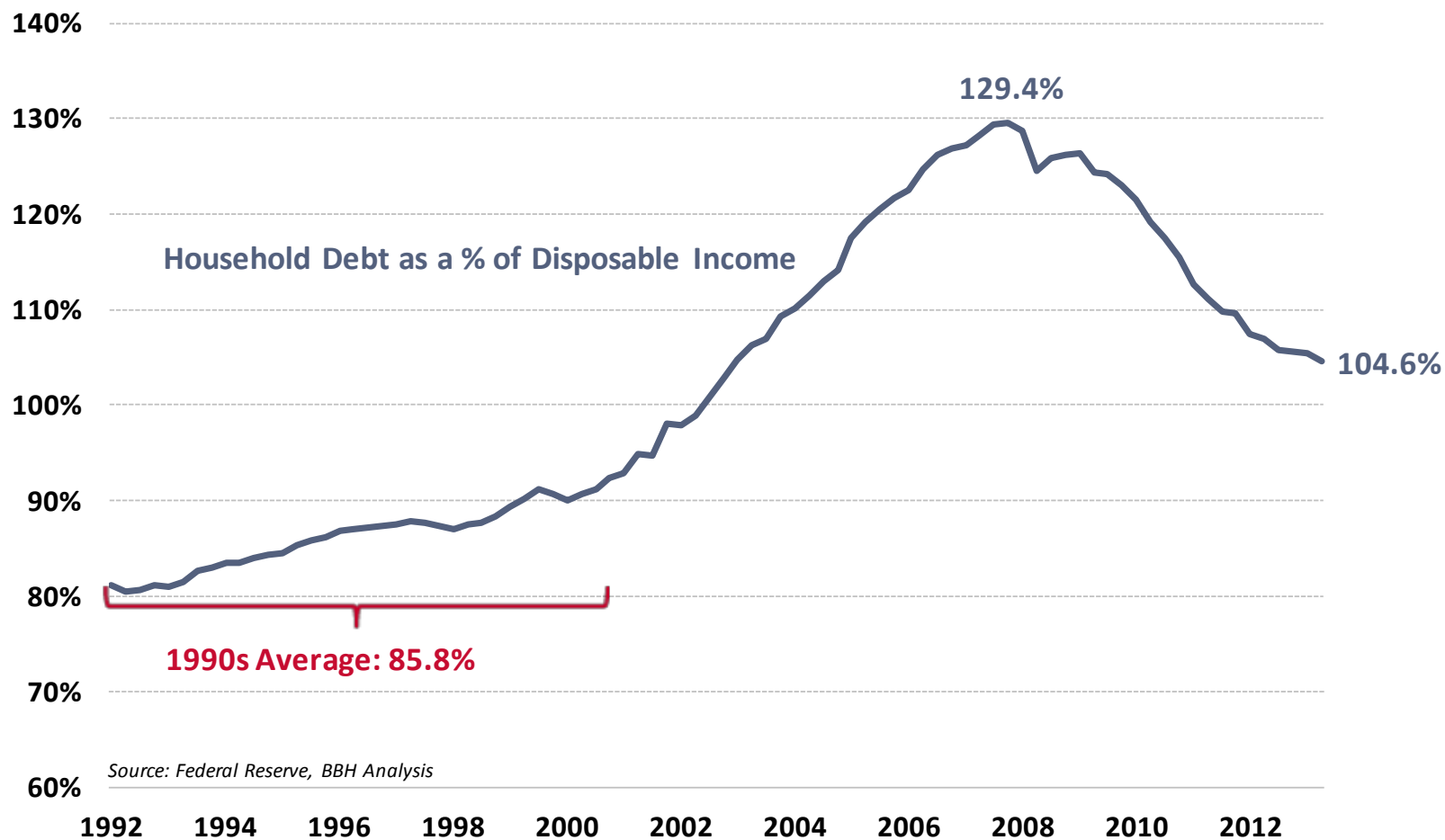
<i>(Jobs figures in 000s)</i>			
Economic Sector	Non-Farm Employment		Net Change
	February 2010	October 2013	
Goods Producing Sectors			
Manufacturing	11,460	11,986	526
Construction	5,522	5,834	312
Mining & Logging	675	887	212
Total Goods Producing Sectors	17,657	18,707	1,050
Service Providing Sectors			
Trade, transportation & utilities	24,541	26,130	1,589
Government	22,470	21,862	(608)
Education & health services	19,395	20,771	1,376
Professional & business services	16,549	18,706	2,157
Leisure & hospitality	12,935	14,284	1,349
Financial Activities	7,724	7,910	186
Other services	5,315	5,496	181
Information	2,734	2,688	(46)
Total Service Providing Sectors	111,663	117,847	6,184
Total Economy	129,320	136,554	7,234

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

Household Financial Health

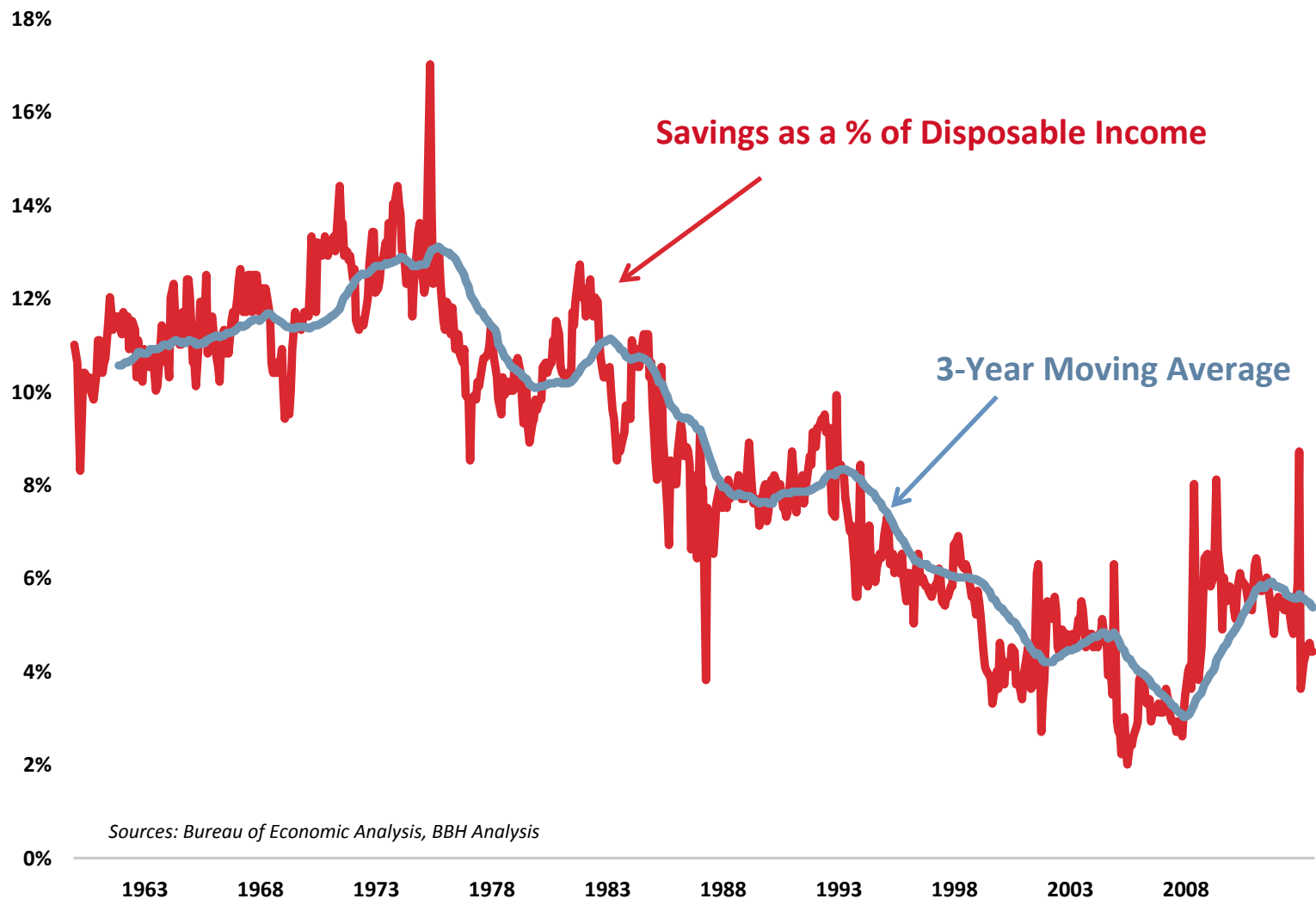
Households Continue to Pay Down Debt ...

Household Debt / Disposable Income



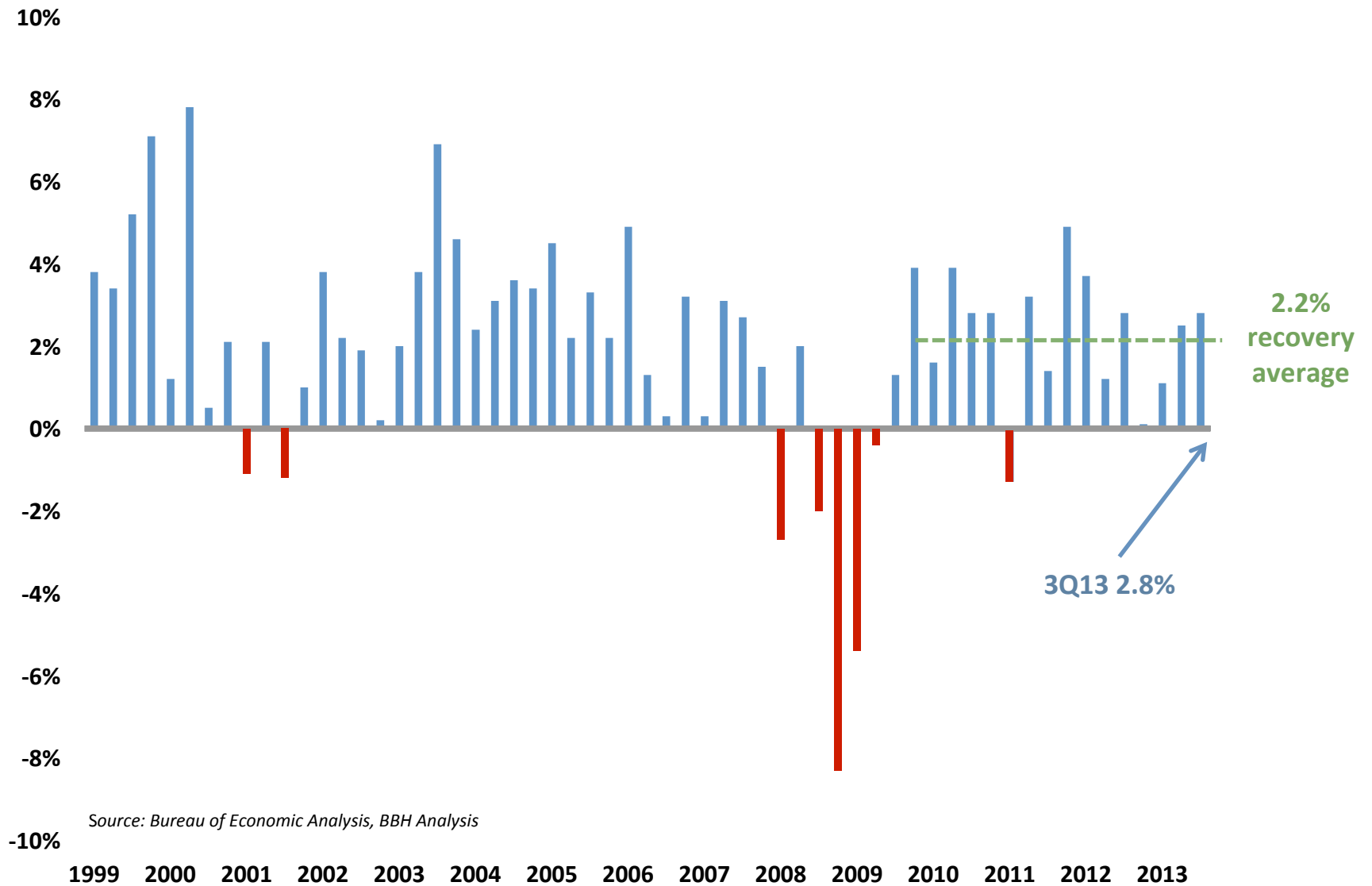
Household Financial Health

... And Increase Savings



Gross Domestic Product (GDP) Growth

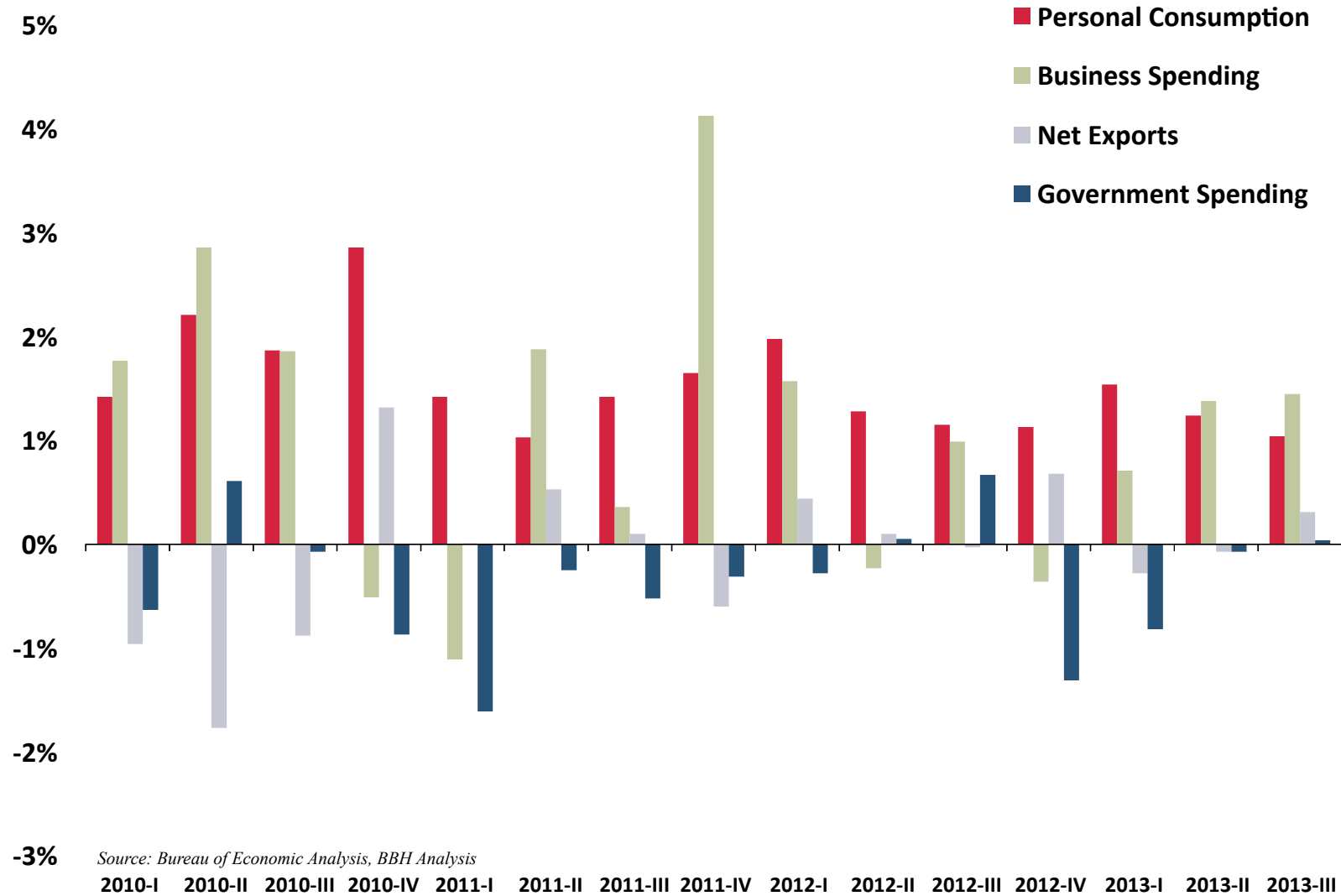
Growing at a 2.8% Pace in the Third Quarter



Source: Bureau of Economic Analysis, BBH Analysis

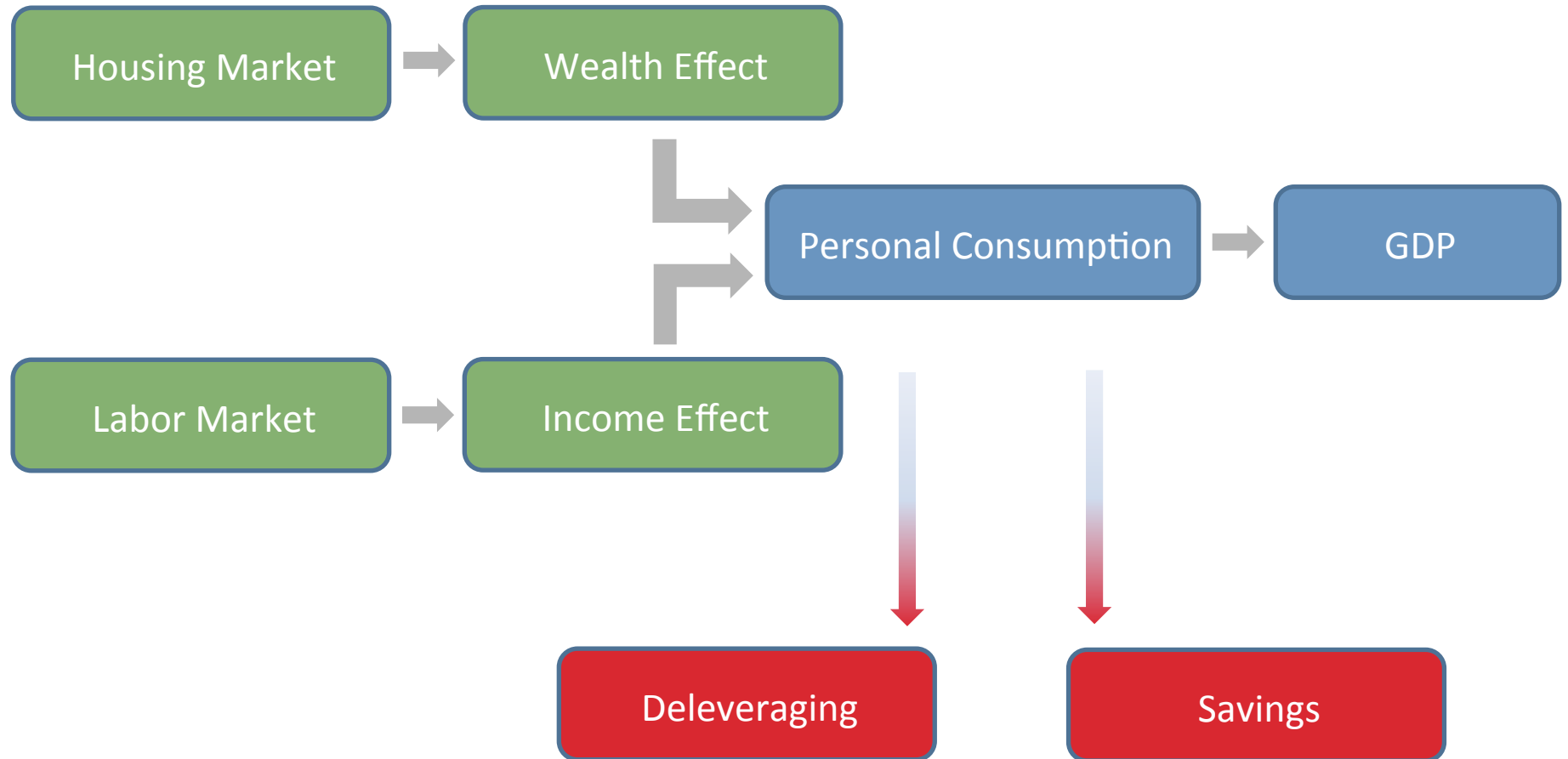
Gross Domestic Product

Contributions to GDP Growth



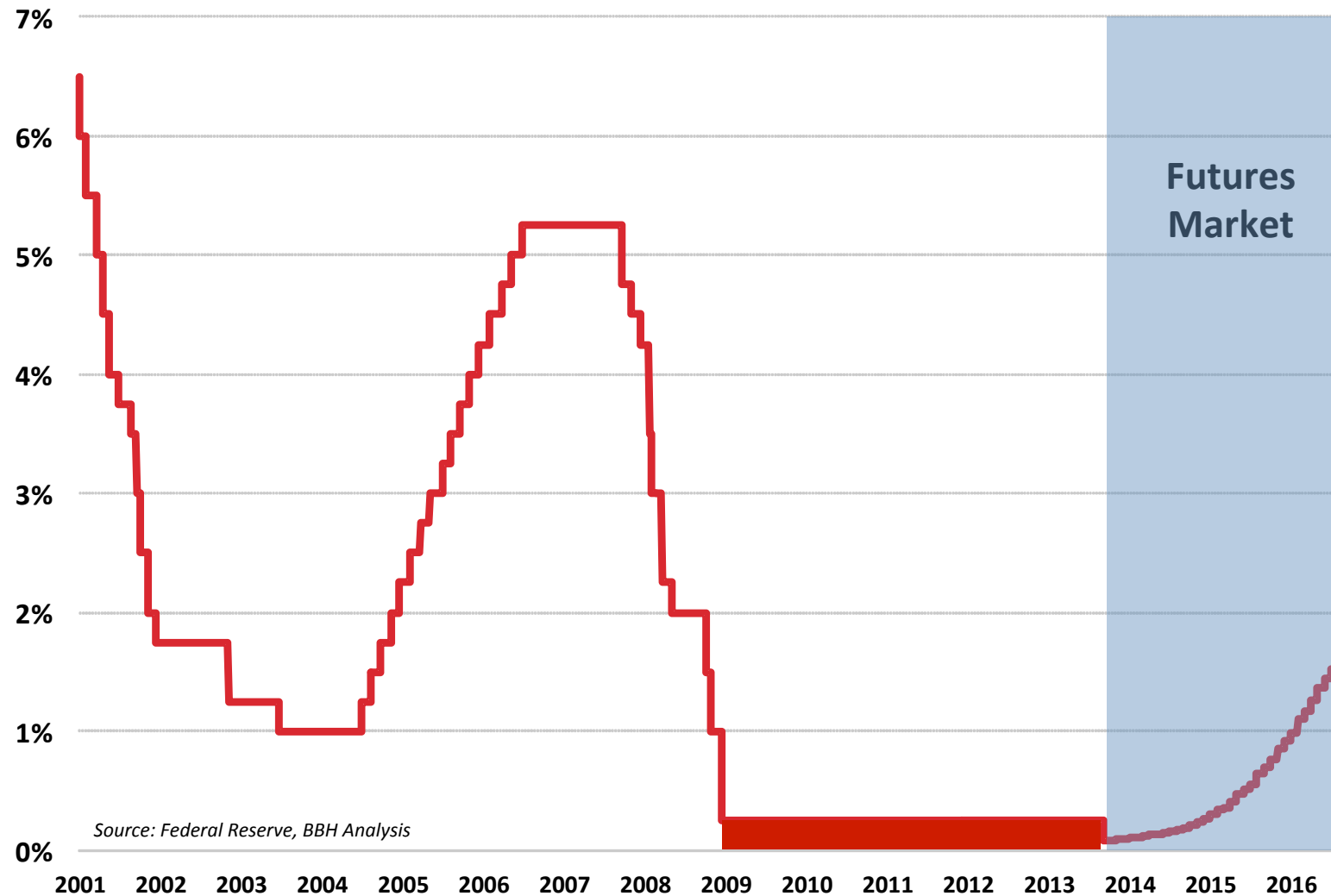
Source: Bureau of Economic Analysis, BBH Analysis

Roadmap of the Domestic Economy



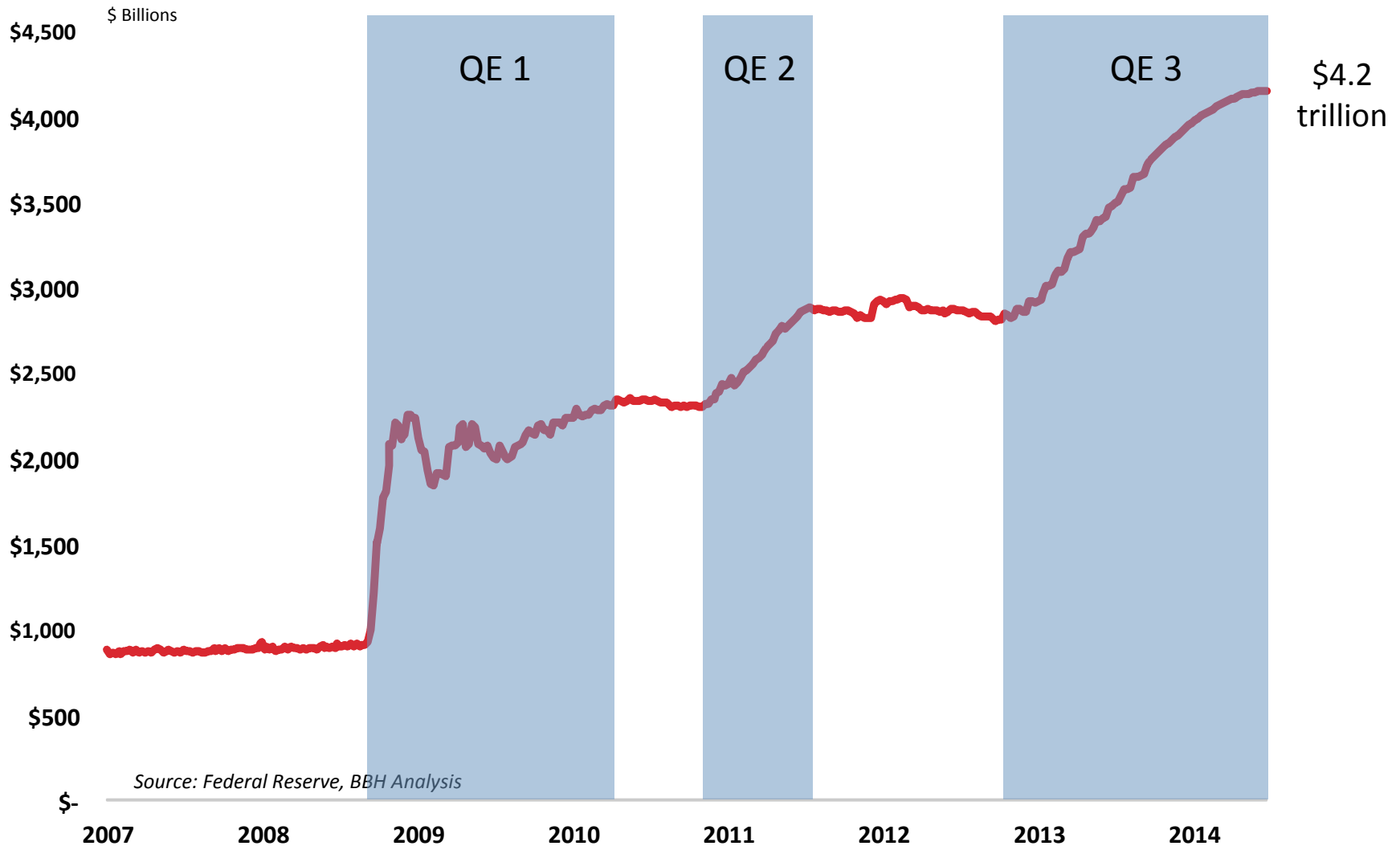
Fed Funds Rate

And Futures Market Implications



Assets of the Federal Reserve

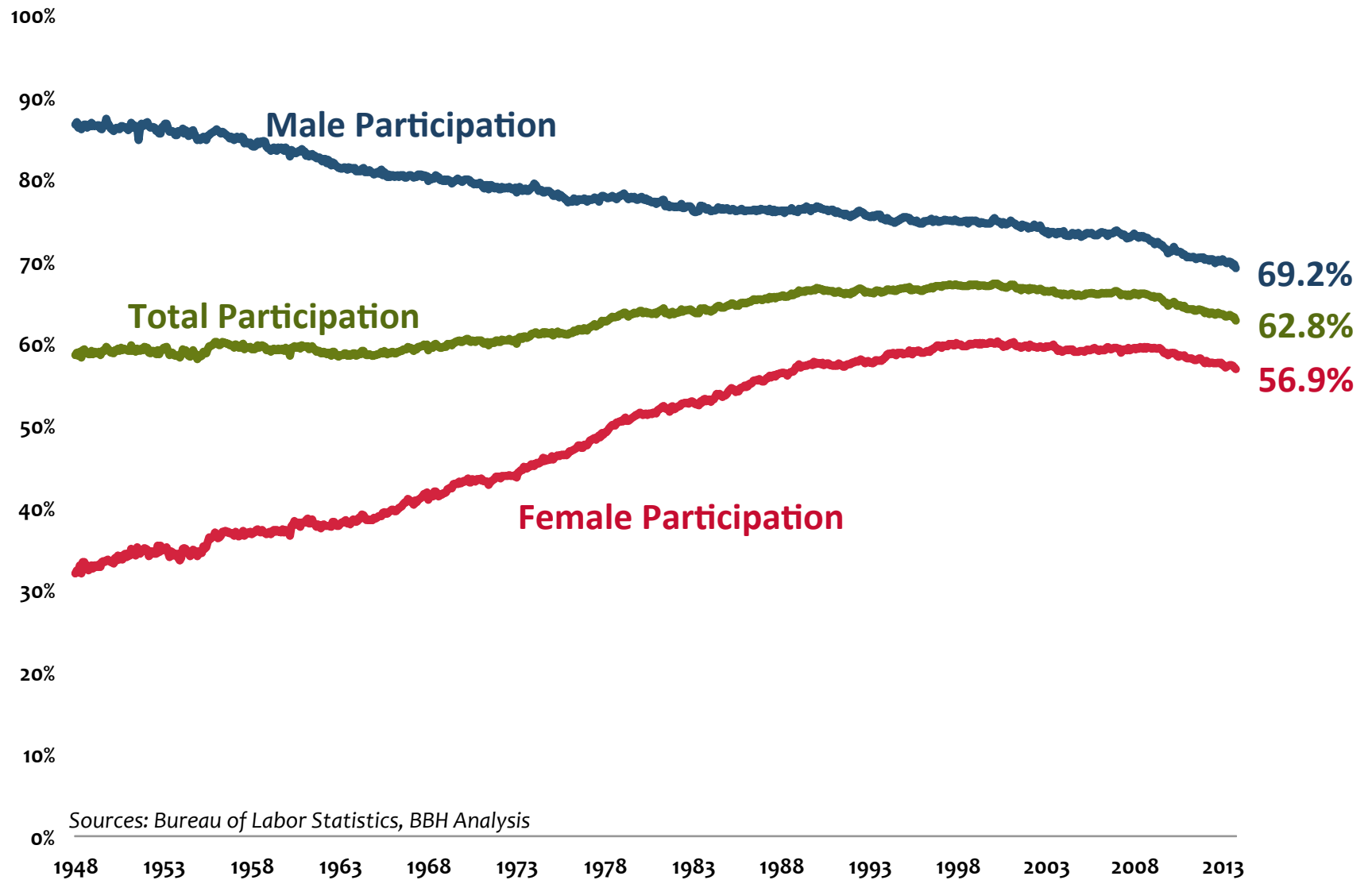
Including Pro-Forma QE3 Assumptions



Source: Federal Reserve, BBH Analysis

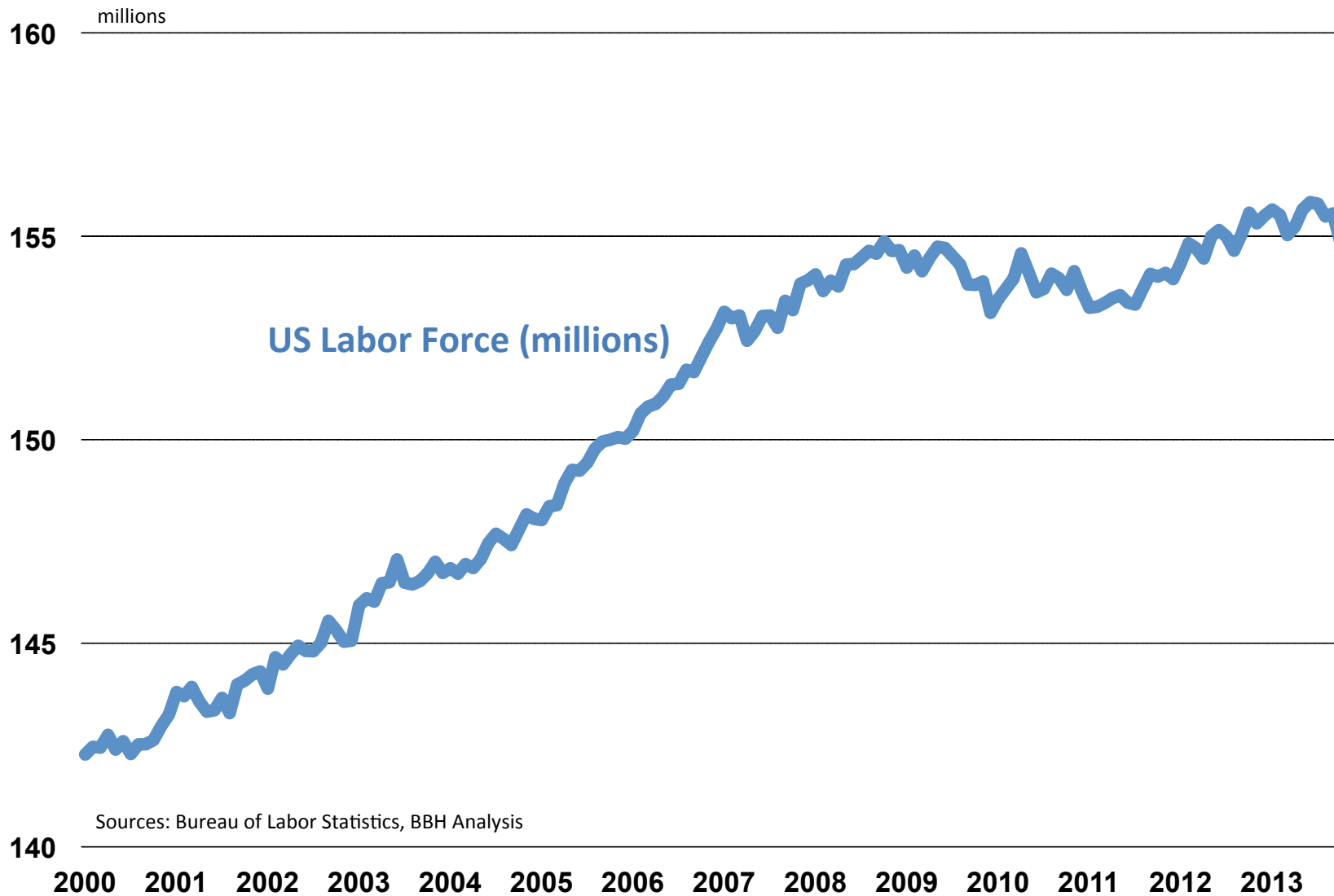
Labor Force Participation

The Real Driver of Declining Unemployment



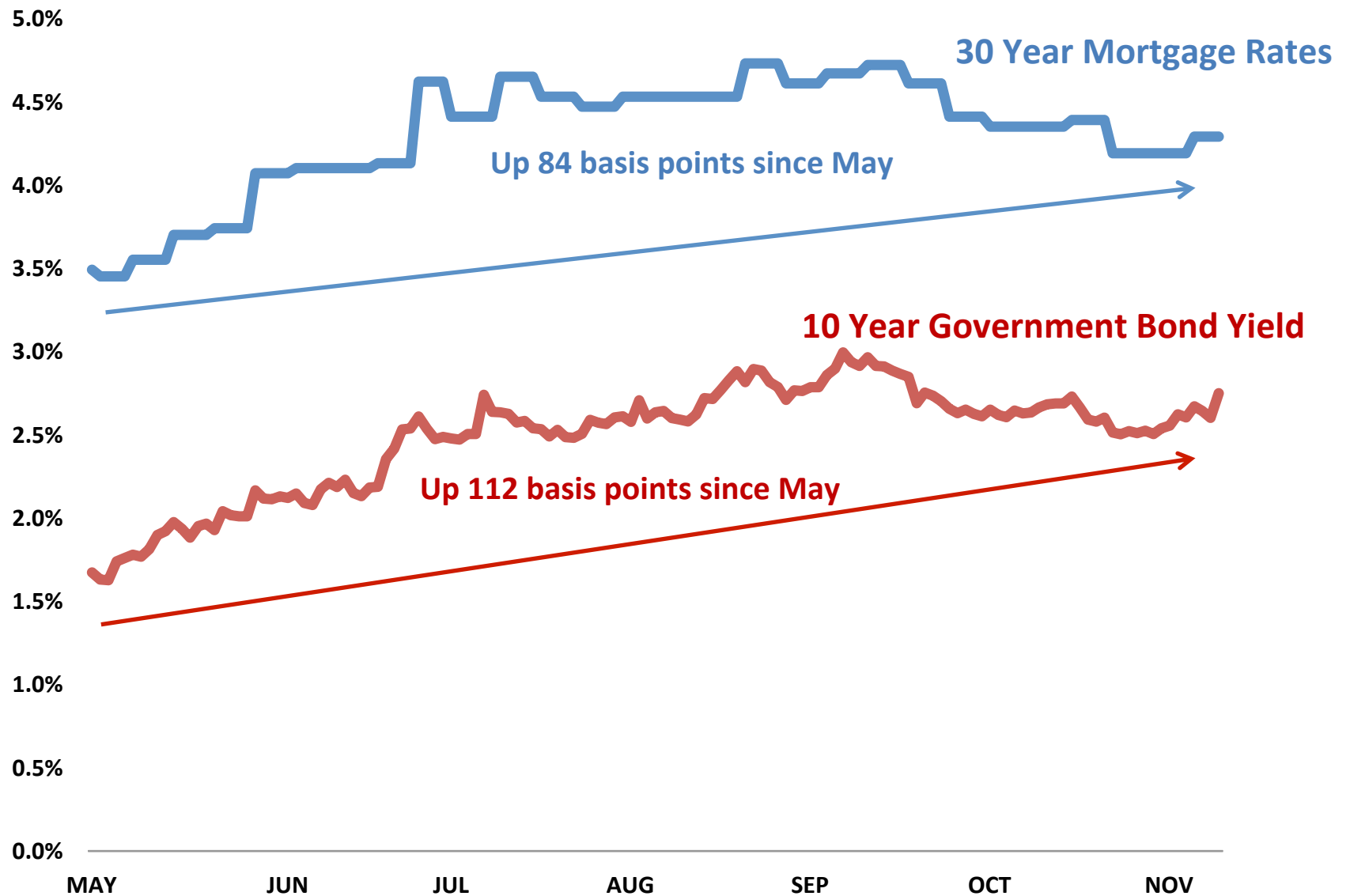
Sources: Bureau of Labor Statistics, BBH Analysis

Total Job Creation



Communication as a Monetary Policy Tool

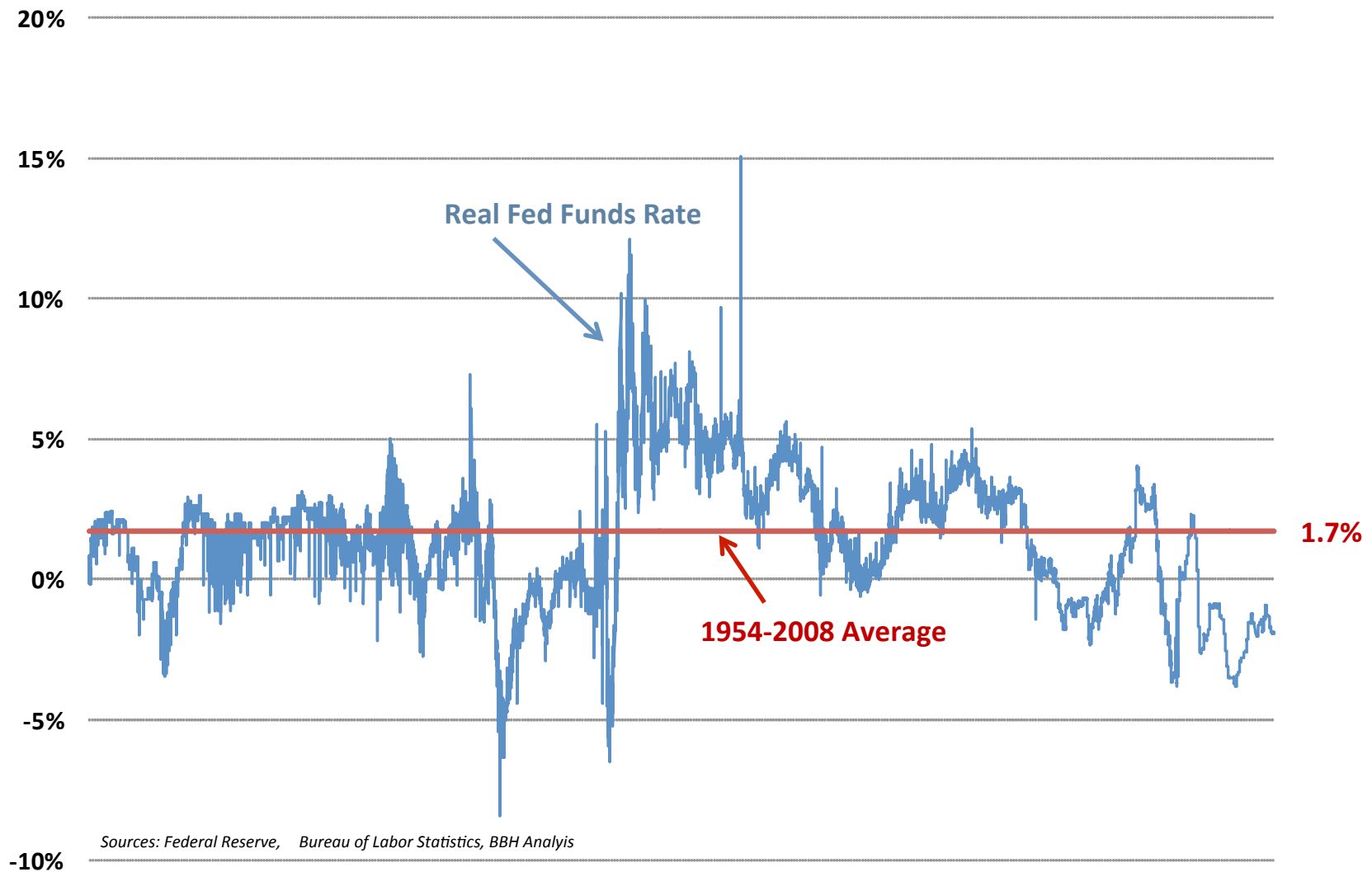
Talk Isn't Cheap



- Federal spending cuts (the sequester) and the January 2013 payroll tax increase probably subtracted 1-2% from GDP growth this year.
- It appears that the October government shutdown didn't hinder economic activity noticeably, but the prospect of more political brinksmanship in early 2014 may dampen business or consumer spending.
- The debt ceiling – suspended as part of the October compromise – will take effect once again on February 7, 2014.

Fed Funds Rate

What SHOULD the Rate Be?



European Economy

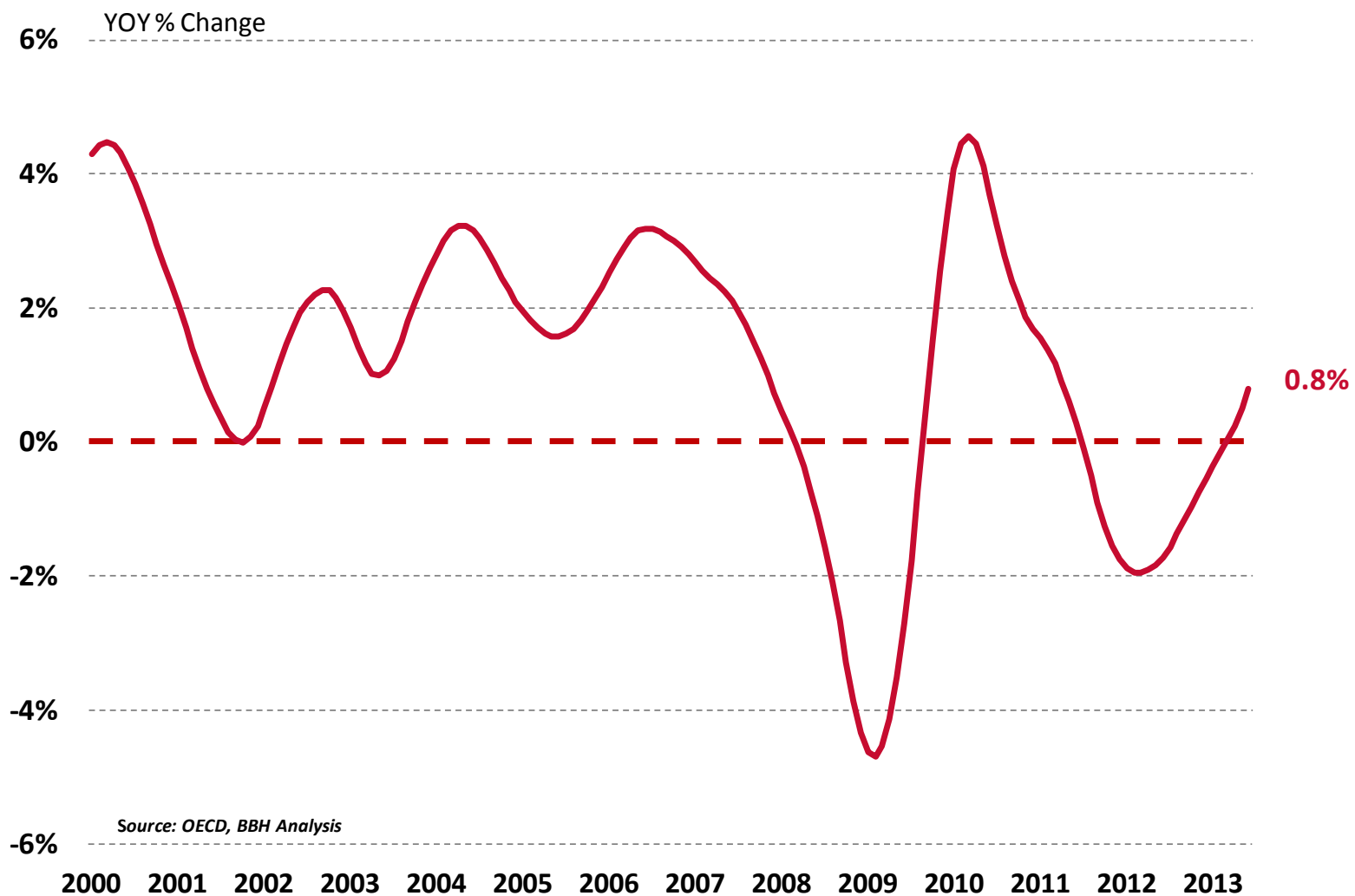
Turning the Corner?



European Economy

Turning the Corner?

Eurozone Leading Economic Indicators



Chinese GDP Growth

Decline or Maturity?



Source: National Bureau of Statistics of China

Investment Implications

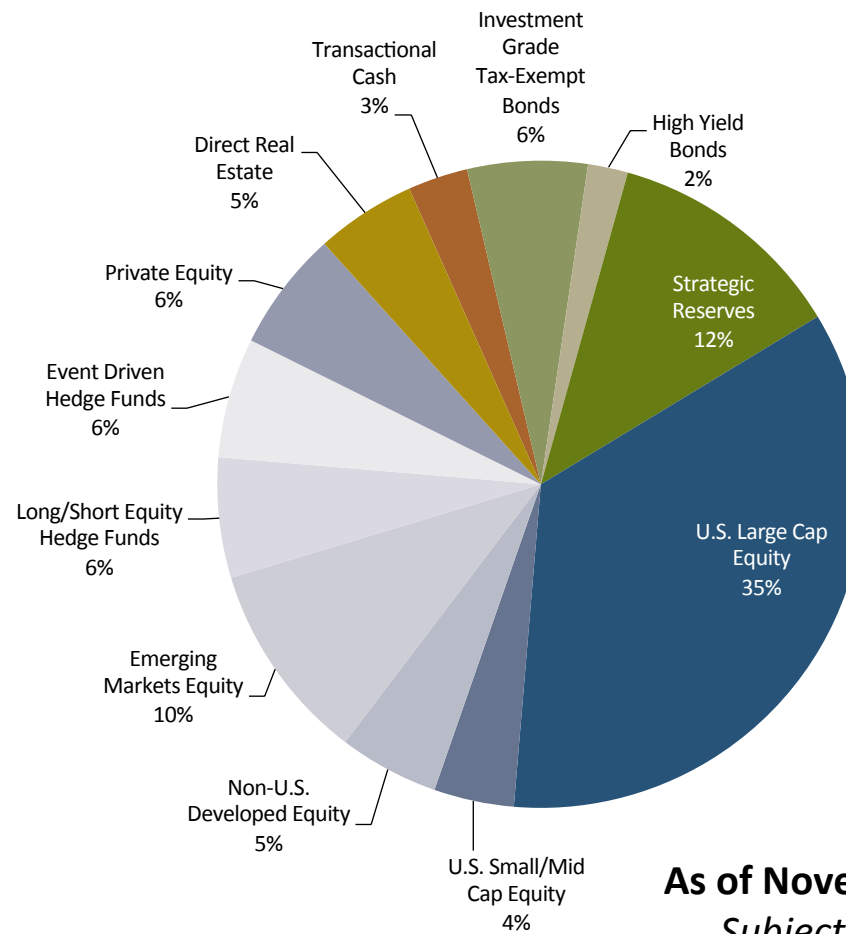
Asset Allocation for a Balanced Growth Portfolio

INTERNALLY MANAGED

- US Large Cap Equity
- Investment Grade Tax-Exempt Bonds
- Strategic Reserves
- Direct Real Estate
- Private Equity
- Transactional Cash

EXTERNALLY MANAGED

- High Yield Bonds
- Non-US Developed Equity
- Long/Short Equity Hedge Funds
- Event Driven Hedge Funds
- Emerging Markets Equity
- U.S. Small/Mid Cap Equity



As of November 5, 2013
Subject to change

**Balanced growth portfolio: a BBH policy portfolio with long-term capital appreciation as the primary objective and income generation as a secondary consideration.*

- Sustained (albeit modest) gains in the housing and labor markets bode well for continued improvement in the U.S. economy.
- Focus on the health of Personal Consumption: as goes the consumer, so goes the economy.
- In order to support this moderate expansion, and in the absence of inflationary pressures, the Federal Reserve is likely to keep monetary policy very accommodative.
- Eurozone economies seem to be turning the corner, as the financial sector heals and moderate growth resumes.
- The pace of Chinese expansion is slowing, but to a more durable and sustainable rate.

The views expressed are as of September 2013 and are a general guide to the views of Brown Brothers Harriman ("BBH"). Commentary is at a macro or strategy level and this document does not replace portfolio and fund-specific materials.

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Investors in an asset allocation portfolio should be able to withstand short-term fluctuations in the equity markets and fixed income markets in return for potentially higher returns over the long term. The value of portfolios change every day and may be affected by changes in interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the issuers and companies in whose securities the portfolios invest. The value of a portfolio's investment in foreign securities may fall due to adverse political, social and economic developments abroad and due to decreases in foreign currency values relative to the US dollar. Companies issuing high-yield bonds are not as strong financially as those with higher credit ratings, so the bonds are usually considered speculative investments. These companies are more vulnerable to financial setbacks and recession than more creditworthy companies, which may impair their ability to make interest and principal payments. These risks are greater for investments in emerging market issuers than for issuers in more developed countries. The use of derivative instruments, shorting and leverage strategies may accelerate the velocity of potential losses. Interests in certain portfolio components may be illiquid and there may be significant restrictions in transfer. Portfolio shares are not deposits or obligations of any bank, government agency, are not guaranteed by the FDIC or any other agency, and involve investment risks such as the possible loss of the principal invested amount.

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Unless otherwise noted, all information is as of the previous quarter.

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