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**WTAZ - Inflation and Deflation**  
**Wednesday, October 26, 2011**

Paul Ahern:

I am Paul Ahern. I am one of the partners here at the firm and on behalf of everybody at WealthTrust, I want to thank you for coming out tonight. We do have some other gentlemen in the room. We have like Don Bertrand and he's sitting in the back here with us. Don Bertrand is one of our advisors with the firm. We recruited Don over here a while ago from Fidelity. As many of you know, we custody our clients' assets either at Charles Schwab or at Fidelity. None of your money is held here at WealthTrust-Arizona. So Don helped lead our charge in getting the Fidelity platform built out at the firm. The gentleman in the back, Patrick and John are both from AllianceBernstein. AllianceBernstein is our featured guest tonight. I'm going to get Brent introduce Gina in just a moment but I want to make a formal introduction of Brent McQuiston. Brent is one of our longest term advisors here at the firm. He's a Certified Financial Planner, a Chartered Mutual Funds Councilor. He was at Schwab for many years before we recruited him over here including a stint as a manager for many years at Schwab. Today, what he does is he serves as the head of our Equity Committee. And as all of you who are clients of our firm know, the Equity Markets have been challenged. Everything has been challenged for that matter. So Brent is a vital part of this firm and whatever investments you have in your portfolio, both Brent and Don have had a key part in putting them there because everything we do at this firm, we do as a committee. So I'd like to turn over to Brent and then we'll have Brent in turn introduce our speaker.

Brent McQuiston:

All right. Thanks, Paul. Well, Paul was mentioning the third quarter of this year was extremely challenging. We saw the Equity Markets in that 90-day window, if you looked at the US markets measured by the S&P 500 down almost 14%. Small Cap Stocks have been hit in the United States. We're down almost 20, as well as Mid Cap Stocks. So, pretty big pull-back there. Overseas internationally, it was even worse. We saw the international markets pretty much trade in [tandem] with each other. We saw 20% down in most developed nations and up to 23% down in some of the Emerging Markets. How we construct portfolios, of

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course, is we're well-balanced and diversified. We're not just investing in stocks. We have bonds, stocks of all different types, international and domestic, small and large, as well as different alternative strategies. So, the biggest culprit in the Q3 was the Equity Markets. They took a substantial hit. That was then, this is now. We have had a very nice recovery so far in the month of October. Most markets are up 8% to 11%. So not fully recovering from where the pull-back was but it certainly helps. Now, I want to talk a little bit about Q3 results because I think this is important to understand. In the third quarter, since Equities did not do well, we would look at, "Okay. Well, we're not a 100% in Equities, we got other investments inside the portfolio to help offset those losses." Well, guess what? Most other investments also went down during the quarter. So the diversification didn't help a whole lot in the third quarter. So what we saw is even bonds traded down outside of the Treasury. So, part of our bond strategy is to have exposure in foreign sovereign debt and the position there is really outside of Europe so we got a lot of Emerging Market Debt there. Emerging Market debt was traded down. Even High Quality Corporate Debt here didn't do that well so that was more flat, maybe slightly negative. So, the offset that you typically see on the more conservative part of your portfolio on the bond side didn't really provide much of an offset. Then in the other strategies, that some of you may or may not be in on the alternative side, kind of mixed results there. Some alternative types of strategies whether it's in various types of hedge funds are managed future strategies or various absolute returns vehicles, some were negative, some were a little bit positive. So that didn't really help. So overall, a challenging quarter. So, really the only thing that did really well was the US Treasury. So the US Treasury price has climbed and yields dropped even lower. We saw during the quarter, yields on the Ten-Year Treasury trading both below 1.8% and that's pretty significant. It wasn't too long ago that we had yields on the Ten-Year Treasury just a few years ago at 4% and we thought that was extremely low there. How much lower can it go? But now [laughter] we're down to these levels. So it's not an asset class that we've actively put money into because the yields are so low and if there's not that much room for yields to go lower but a lot of potential for them to go higher, we think there's a lot of risk there so we kind of avoided

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that. It would have been the best place to be in the third quarter but we weren't there. But in any rate, that's kind of the story on the third quarter. So we do think we'll have some much better [laughter] results in the fourth quarter. So with that said, I want to talk a little bit about, Paul mentioned that we have an Investment Committee. So I chair the Equity Committee. We also have a Fixed Income Committee where we do the research on bonds and we have an Alternative Investment Committee. So we do a lot of internal research with - actually in this room, we have a taped table set up here. So, we bring a lot to the table within our office but sometimes it's very helpful in our industry to go outside of our office to listen to what other people are saying. So, AllianceBernstein happens to be a firm that we have a relationship with from a standpoint of tapping into their research and hearing what they have to say. We use a lot of firms around that also help. It's almost an extension of our team where we can hear what they're saying, various analysts and economists. So we're fortunate tonight to have Gina Toth with us. She's been with AllianceBernstein since 1993. She's a Chartered Financial Analyst. She led the European Credit Strategies for AllianceBernstein in 2005 when you were relocated to London. So, kind of interesting because we already have all these European debt issues so she has some insight there that she's going to share with us. In 2007, she moved to Sydney. She worked on the Blended Strategies Group there and then in 2010, she repatriated to the United States [laughter] and working out in New York. So, educated through University of Michigan in Microbiology and MBA from Cornell University so she brings a lot to the table. So without further ado, I would like to introduce Gina to kick off the presentation tonight.

Gina Toth:

Thank you. [Laughter] Good evening, everybody. First, I just wanted to thank you all for coming. This is actually a treat for me. I really enjoy getting out and talking to investors about what I know about the markets and my own experience and help you all understand what's going on, because I think it's important to have that knowledge because it helps you make better decisions for yourself. So hopefully at the end of today, you will have a better sense of what's been happening broadly in the economy globally. We'll talk about

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inflation and also talk about Real Assets which are assets that respond to inflation and hopefully you'll find that our approach and some of the findings of our research that I'm going to share with you are interesting and thought-provoking.

So I think a good place to start is really just talking about the macro environment generally. So, I would say that from my firm's perspective, we're actually probably less pessimistic than a lot of people. We're expecting global growth to be about 2.8% this year. Our expectations have been coming down. They've been coming down for a while. Most recently, we've readjusted our expectations mostly because of what's been happening in Europe. We do think that the fact that Europe continues to struggle with the sovereign debt issue is obviously dampening their own growth which is having an impact on global growth. But we do still think that growth as a whole will continue, okay? So we're not concerned about a global recession at this point. And what's interesting is I think when you think about what's been happening in the global economy really since the end of the financial crisis, the recovery has really been driven by what's been happening in the Emerging Markets, okay? Emerging Market growth continues to be very strong and this has continued, and this has actually filled the vacuum that was created by the Developed Markets because the Developed Markets obviously were hit very hard by the financial crisis. But over time, what our expectation is is that we expect growth to slow in the Emerging Market countries. Many of these countries continue to struggle with high rates of inflation so they are pulling back on their policies, reducing liquidity, for example, to really slow down that growth to a more moderate pace. In the Developed world, we're expecting growth to actually improve as the Developed Markets continue to work through all of the issues that were really created by the financial crisis. And so we think in the coming year, for next year, we think global growth would probably be about the same, 2.8% but the relative contribution between Emerging Markets and Developed will shift a little bit and become a little bit more balanced. When you think about where most of this growth is coming from, this is really coming in from Asia ex-Japan, okay? It continues to be very strong there. Our

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expectation for this year is growth of about 7.4%. A large contributor to this is China. China has been growing at about 9%. We think it will probably slow to about 8.2% which is [definitely a healthy clip]. India is also a major contributor to growth in the region. We think that will be running around 7.2%. Latin America is probably going to be not too far behind Asia ex-Japan in terms of growth and there we're expecting growth of roughly about 4%. When you turn to the Developed Markets, obviously growth continues to be very slow. In the US, we think that things are actually starting to look better. So for the most part, since the end of the crisis, most of the growth in the US has really been driven by the US's ability to export particularly to the Emerging Markets. And that was a major change because historically, the US economy has really been driven by consumption and housing, and we all know that those two factors really fell away as a result of the financial crisis. Now over time, we believe that the drivers of growth will shift back. And earlier this year, there were actually indications that it's starting to make this transition but it was actually temporarily interrupted by a couple of factors. One was we had a spike in oil. This was a result of the fighting in the Middle East, primarily Libya, and that spike in oil dampened growth. The second thing was the tragedy in Japan. So with the earthquake and the tsunami, this created supply chain disruptions which had actually a very large impact in the automotive industry, and it impacted economic growth globally and obviously that was a main contributor to a slow down in the US. So we sort of experienced that in the middle of this year but recent data, so for the third quarter, it actually looks like third quarter growth is likely to come out to be about 2.5% on an annualized basis. So that's pretty good. So overall we think the US will probably grow at about 1.9% for the year and we're expecting much stronger growth in 2012 of about 3%, okay? So that's pretty good.

But obviously the main concern is really Europe, right? All eyes are on Europe and the issue there as we all know is first and foremost, is really addressing the Greek debt situation. So they have to continue to pass more aggressive austerity measures to qualify for additional support; but beyond that and beyond really addressing Greece's problems is the Eurozone's ability to bring

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confidence to the market, that this isn't going to become a bigger issue, right? Because the world is very concerned that what's happening to Greece, which is a small economy relative to all of Europe that this may actually spread to countries like Spain and Italy and even potentially France. And that's a much bigger problem because these are large economies with a lot of debt outstanding. So the amount of funding that would be required to address Spain and Italy would be in the order of magnitude of about ten times what is required to really stabilize Greece, so that's really what the market is worried about. News today actually was a bit mixed. [Laughter] It really wasn't clear whether or not they actually were able to come to an agreement. There were actually conflicting news reports out. It looks as though the market is trying to - they were obviously very encouraged by some positive economic data out of the US so we had Durable Goods Orders actually - they fell but they fell less than what the market expected so that was a positive sign and the new home sales is actually a surprise on the upside as well. So these were two positive factors. So we're starting to see a string of good news come out to support the US economy so this is very good so the market was happy about that. But what they're focused on as well is trying to understand how close Europe is to actually coming to some agreement. So they were scheduled to really discuss recapitalizing the banks in Europe because part of addressing this issue is they need bond holders to agree to write down a certain amount of debt, so accept a certain degree of losses. And of course banks are large holders of that debt and that would require bolstering their capital and there's a number of different ways to actually do that. It was unclear as to whether or not they actually came to an agreement. There was one story that said yes, there was another story that said no. So tomorrow I think we'll probably get the final answer to that. But the markets today actually did close up a little bit so I think that that was definitely good news.

Male 1:

Gina, I apologize. Could you at least maybe just touch on or just address quickly the CDS, the possibility of [that] study the nominal outstanding value of all CDS contracts and in your opinion what a potential default by any one country could mean for that? Because there's been talk I've heard about or sort

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of this you're kind of pulling on a string of yarn and you don't know how it's going to untangle but it could have a huge impact on banks as you said in the US and around the world. Do you folks talk about that with [unintelligible]?

Gina Toth:

We do and it is a concern. But to the best of our ability to research the situation and understand the degree of contracts that are out there and the various exposures that financial institutions may have either directly or indirectly through CDS contracts, we think that there's going to be varying degrees of issues. There are actually a number of banks that are smaller in size that have a large degree of exposure that are probably going to be in a very serious situation where they're not really going to be able to withstand the decline in the value of those assets that they hold. So they don't have enough capital. So we're likely to see some smaller bank failures. The larger institutions, by and large, are pretty well capitalized and total exposures tend to be on the order of magnitude of I'd say less than 5% for most of the major majors. Now with that being said, if this becomes a contagion situation where we're not just talking about exposures to Greece but we're starting to talk about larger Eurozone exposures, then we're talking about a bigger issue. But right now, our base case scenario is that this won't become a serious contagion, that it will be contained; but the problem is that we're also foreseeing this continue to be sort of a bumpy ride because of the way the big European leaders have really handled the situation.

Male 1: Thank you.

Gina Toth:

So, maybe what I'll do now is - we're talking earlier about how markets are going to react and we know the third quarter was very, very difficult, and what we've really been experiencing as a result of these concerns is really perverse behavior in the market place. And what I mean by that is that when you look at how stocks have been trading, they've been trading really in tandem. So there hasn't been a lot of dispersion in returns. They either all go up or all go down at the same time and we call this risk on/risk off trading and this has been happening for a while. And it's very frustrating particularly for active managers

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who are actually trying to make money by picking individual stocks. It almost doesn't matter which stocks you own these days. Over time as confidence comes back to the market, we think that that will stop because what we'll find is that investors who used to be worried about how much equity exposure they have would become comfortable with that but then they would also become more discerning as to which stocks they actually want to own. And that's when a lot of the pent-up opportunity that we see in the equity space will actually start to come to fruition in terms of returns in investment portfolios so I think that's something to look forward to.

So maybe what I'll do is - we turn to the heat map. So knowing what we know about the global economy and knowing that a lot of the growth is really still coming from the Emerging Market space, we can look at what this means for inflation globally. So this is a picture of our inflation heat maps. So red is hot which is inflation above 5%. So of course China is in there, Latin America is in there. India is actually is probably one of the worst countries in terms of inflation. They've had persistent levels of inflation of about 9% and really struggling to deal with that. And then we have Developed Markets, some actually below 2% but both the rest of the world, some are between 2% and 5%. So it varies greatly by region. And when you're thinking about Real Assets, of course these are assets that respond to inflation, the important thing to remember is that it's actually global inflation that makes the biggest difference. And I think here, I want to make one distinction which is when people think about inflation, they tend to think very locally. When I say, "Okay, what's the inflation going to be like in the US? Do I really need to worry about this?" Yes, you do because it impacts what you pay at the pump and what you pay at the grocery store and how much everything cost to live. But from that perspective, if you're really concerned mostly about domestic inflation then you want to consider assets such as TIPS, and the reason for that is that it provides more of a direct hedge because the price of TIPS is mechanically and directly linked to domestic inflation. When you think about Real Assets, so things like Real Estate, Real Estate Stocks, Commodities, Commodity Stocks, these are assets that respond to global inflationary



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pressures. Now the US doesn't exist in a vacuum so domestic inflation actually has a pretty high correlation with what's happening globally. So by investing in Real Assets which we would consider to be an indirect hedge because it's not directly linked to inflation but it does react to inflation, you do get protection against local inflation but it also provides an investment opportunity. Because wherever there's inflation in the world, Real Assets will respond to that, okay? So that's interesting. So if you look at the past three most recent accelerations in global inflation, we had one prior to the crisis and two following. On average during those three periods, global CPI averaged 1.8% on the right-hand side there. During those periods, stocks did what they should have done which is protect against inflation by providing returns above and beyond CPI. So they returned 3.8%, the ACWI index, this is the All Country World Index, so this includes both Developed as well as Emerging Markets; but you'll notice Real Assets on the far right-hand side there actually returned the most with 11.8% so they responded very strongly to inflation. And an important point about this actually is that Real Assets actually not only just respond to inflation but they respond before inflation actually gets reported. Because remember you're always looking at the rearview mirror when it comes to inflation. You don't really know what inflation is until way after it happens. You might feel it but it doesn't get reported until much later. I was telling a group earlier today that it's a little bit like cholesterol, right? You don't really know you have it until it's almost too late so you actually do need to think about it before you actually get that [lab report]. [Laughter] So we know that global inflation matters and so when you look at the major [brick] countries, Russia, India, Brazil, China, inflation there is running close to 7%. Developed Markets have hoped for much lower than that so it really is a global opportunity. So, in sort of recognizing that Real Assets respond to global inflation, we actually wanted to understand better really how they will react. So I don't know if you're familiar with AllianceBernstein but our calling card is really research. We spend a lot of time researching various issues really to the benefit of our clients and in researching this question, we actually spent three years looking at a variety of assets and we even went so far as constructing our own database. So on your chair you will have a black book. All of this black book actually goes into a lot of detail in

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terms of the research that we did so if you actually have some difficulty sleeping, you might want to - [Laughter] This is kind of a think tome to get through but if you read it bit by bit, it's quite digestible I think. So one of the sections in there actually talks about the process that we went through to collect the data to really understand the behavior of Commodity Futures, in particular. Most known databases only go back to about the 1970's and from our perspective, we just felt that that really wasn't enough time to really understand how Futures behave in a variety of environments. So going back to the 70's, you only get one global inflationary cycle, you get two commodities cycles and no deflationary periods. So it just wasn't telling us enough. So part of those three years that we spent, we spent going around to libraries collecting pricing information and constructing our own database going back to the 1890's. So this is a proprietary database that we used to really understand that. So we did look at a variety of what you would expect us to look at in terms of Real Assets, rates, [TIPS], farmland, commodities, stocks, and we wanted to ask three key questions. First was we wanted to understand what the level of inflation sensitivity was, all right? So if inflation goes up by a percent, what happens to the asset return? How does it respond? And when we said, "Okay, well once we know that, the next question is well how reliable or consistent is that behavior? So if an asset goes up when inflation goes up, does it happen all the time or only some of the time?" We felt that that was an important question to answer. And then the third thing was we wanted to understand if there was a cost associated with holding the asset. So for most instruments that provide some sort of a hedge benefit, you end up paying a premium. It's like owning an insurance policy, okay? And that premium typically comes in the form of a return give up. It happens in TIPS actually. So you give up a little bit of return in terms of yield in the hopes that inflation will actually come along and make up for that. That's sort of the bet that you're making. So we want to understand that with regard to each of these assets. So, the first thing that we found was - this is inflation band, inflation sensitivity is the same thing and so any time the bar is below that orange dotted line which is actually 1, what that is saying is that the asset produces a return below inflation. So inflation's going up by a percent, the return on Twenty-Year US

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Treasuries is down 3.1%, going in the opposite direction. So it underperforms in the face of inflation. That's pretty standard. Most people know that Fixed Income suffers, right? In the face of inflation. What a lot of people are surprised about however is when you look at S&P 500, it also has negative inflation data. Stocks underperform. Over a very long period of time, they do compensate for inflation. But over periods of time that most investors care about, they actually don't and the reason for that is really related to the value of the cash flows. So in many inflationary environments, the immediate impact on a company is that profits may be going up but the value of those cash flows further out when you consider the present value of them, because you're typically also going to be in a rising rate environment goes down, and that overwhelms the positive impact of having a slightly inflationary environment on their profitability. So you end up with a negative return impact for Equities. [Ten-year] TIPS actually a little bit below 1. So even though they're directly tied to inflation, they can actually slightly underperform, and that's because you can have instances where inflation is rising but real yields are also rising and so that of course hurts Fixed Income Securities. So it's not until you get up to Commodities Stocks, to Commodity Futures and Precious Metal Futures do you get a really strong positive reaction to inflation. And a lot of clients now they're [unintelligible] that's why I own gold. Gold is a good hedge against inflation. The problem is when you look at reliability, on the reliability front, Precious Metal Futures and Commodity Futures don't work very well. They only work about half the time so it's like a coin flip. So it's not really until you look at more reliable things like TIPS, they're about 84%, recent commodity stocks are somewhere in between so there's a bit of a trade-off in terms of the benefit of holding these securities. Now the third thing is cost, right? So earlier I was talking about having to pay like an insurance premium to have inflation protection, a lot of the horizontal axis here at the bottom, this is inflation beta. So the further left you go, the less inflation sensitive. The further right, the more. So if you go right, that's a good thing; and on the vertical axis, we have return divided by volatility. So this is risk-adjusted returns. So this is how much bang you get for your buck, right? So the higher you go, the better, right? So what you see here is that assets that tend to have a low inflation beta have

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high risk-adjusted return; but assets that are more inflation sensitive such as those Precious Metal Futures tend to rate very low in terms of risk-adjusted return and that's because they tend to be extremely volatile. So in a risk-adjusted return basis, they're not just that attractive. So, we thought about this and we thought, "How do we actually construct a strategy or come up with an idea that might work better?" Because by looking that this chart, it's pretty clear that here's no silver bullet here, there's no one real asset that seems to do all the things that we need it to do, right? You want it to be consistent, you want it to have a fair amount of inflation sensitivity because you want it to protect you when you need it to and you don't want to have to pay a lot to get that kind of protection. So what we found was that if you actually combined Real Assets together, you can optimize some of these trade-offs. So in particular we found that if you combined Commodity Stocks with Real Estate Stocks and Commodity Futures, and you tend to be fairly balanced about it, at least most of the time, you can produce a much more attractive risk-adjusted return profile and depending on the particular balance that you use among these three assets, you can target sort of this inflation beta between 2 and 4 which is pretty good level of inflation sensitivity in our view. So historically, if you were to say, "Okay, if I go back to even prior to the Great Depression and I look at how that type of a portfolio what return profile it might provide versus the S&P 500, the gray bar areas, those are periods of spiking inflation." This is a rolling ten-year performance by the way. So during periods of rising inflation, that portfolio vastly outperformed or really vastly outperformed that S&P 500, okay? But what you'll also notice is that during the periods of deflation particularly just post the Great Depression there, that it does underperform but that can be mitigated by active management. Because what we also find is that performance isn't very consistent across that asset classes. This is just a little subset of how the various components perform and this is in particular, just looking at two years following the recessions. If you actually look year by year which we have done, each of these categories actually ends up all over the place and the difference between the best performing asset and the worst performing asset tends to be quite large, so on average it's probably somewhere around 20%. So the cost of getting it wrong can be quite expensive,

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right? So if you're thinking about like a single asset strategy like buying gold, [laughter] that can be very costly. And by the way, the long-term return for gold is zero. It's zero.

Male 2: Wow. [Laughter] That's very interesting.

Gina Toth: So, when you think about having a Blended Strategy, Blended Strategies by definition, are always going to end up somewhere in the middle, right? Because at least one component is going to be doing really well and then the others will likely be a little bit below so you kind of get the benefit of both worlds. And when you do the calculation and you look at the impact that that has on cumulative returns, having more consistent performance over time, even though that type of strategy always ends up somewhere in the middle, you actually end up with a higher return at the end. So since 1972, a blended portfolio would have produced a cumulative return of about 12% greater than any of the other strategies, right? Because if you think about it, right? You have to not only know which one of these is going to be the highest performer, you actually have to have pretty good accuracy in terms of your timing of getting in as well as getting out, and that's very difficult to do as well. So that's another reason why we think a Blended Strategy makes a lot of sense.

Male 3: Gina, in today's economy, do we relate to any one of those five recovery periods?

Gina Toth: [Laughter] That's a good question. I think what's really unique about this particular recovery, I would say it's probably - it might be similar to the 90's maybe. I think that the thing people struggle with when they think about the trajectory that this particular recovery is taking is I think they're expectation is that it should be happening a lot stronger and a lot more quickly than it is. But historically, what we have found is that recessions that are really financially-driven tend to be the most difficult to recover from and that the recoveries tend to be longer and they tend to be more volatile and that's what we're experiencing. And I think you can take some comfort from the fact that based

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on our historical experience, the trajectory that we've been experiencing is in keeping with historical experience based on the causes of it and it's just frankly going to be a painful ride, [laughter] unfortunately.

Male 4: Gina, when you mentioned gold a moment ago in terms of its absolute zero return over a long period of time, what is that in your mind? What standard period of time? Is it 50 years? Is it more than that or less than that?

Gina Toth: I don't know if I could put a number on it; but if you think about it, in general, Commodities do generally keep pace with inflation. So theoretically the value of gold or the return of gold should be inflation less storage costs, right? You can't really own gold. Well you can but you have to put it some place [laughter] and that's going to cost you money. And so the way we think about gold is that I think it's an interesting idea from a tactical perspective. So we all know that gold returns recently have been extremely attractive which is why a lot of people think, "I should buy gold. Gold's been doing great." The problem with that is that there are a lot of different factors that actually drive gold returns, right? People buy gold when they're fearful that the financial markets could be in trouble, so it's a safety net. They buy gold if the economy's doing really, really well and they fear inflation. So, there are a lot of different dynamics which actually explains why Commodities in general and Precious Metals as well aren't that reliable because there are a lot of different things that drive their value. So I think over a shorter periods of time, it can be interesting as a tactical play; but having it in a strategic function in particular as an inflation protection strategy, it's not that useful because it's only going to help you about half the time. So, I don't know if that helped. [Laughter] Are there any other questions?

Male 5: Can you talk a little bit about the political climate we're in right now and what impact will that have on [laughter] various Real Assets and do you see those changing at all [going forward]?

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Gina Toth: So, my crystal ball, I left at home [laughter] unfortunately which is really what you need to be able to predict what's going to happen politically. I think that it is very difficult to predict what's happening not only politically here but globally, and really understand how that's going to play out and what impact that's going to have for inflation. I think that whether you're talking about the Democratic party, the Republican party or any of the other parties involved, that the focus really is on restoring growth. How they do that ultimately will obviously have an impact; but given the nature of our political system in all likelihood, we're not expecting to see any major chaotic event as a result of it, right? Because of the whole process of checks and balances, we do think that one way or another we will muddle through, growth will continue and the recovery will continue. And I think our greatest concern really is not just the politics of Europe in particular, but the level of confidence that they're able to instill in the market which is almost more important, that's really what we need to see. Because with confidence, you will see greater investment and that's just going to help everyone globally and that's just going to take time.

Male 6: How does the stability of the dollar come in to all of this?

Gina Toth: So, the dollar's interesting. Currencies generally speaking, you can think about them as being like a safety valve in a lot of ways. So, when you think about the US dollar in particular, US dollar tends to be a safe haven, right? So whenever Risk Assets sell off or Equity sell off which would actually take Real Assets with them, the dollar tends to appreciate versus other currencies. I would put the yen in that category. I would put Swiss franc on that category. Longer-term - well, let's say near-term. Near-term, we know that the US along with a lot of other developed economies have to continue to have accommodative policies to help restart the engine of growth, right? So one way to do that is keeping interest rates very low. Accommodative policies have a tendency to work the other way. They have a tendency to pressure currencies. That, by the way, is one of the reasons why we think that in the longer-term, the environment for Real Assets is very positive. Because the cycle that we see for Developed Markets is that as we know they're all struggling with high levels of debt, huge

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budget deficits, they are having to continue to implement accommodative policies which tends to depress the currencies which makes imports into those currencies more expensive because the currency is [worth less]. On the flip side, we have Emerging Markets. Emerging Markets are in completely different cycle, growing very quickly and very quickly trying to become Developed. So in that process, we have a growing middle class, people getting more money. They demand more protein where they couldn't afford it before which requires more cows, more pigs, more chickens which requires more feed. So that pressures agricultural prices upward and also they're continuing to go through this process of urbanization. So in China alone, about fifteen million people every year are moving from farms into cities because that's where the jobs are and that requires an additional three to four million of new housing every year. Houses need plumbing, they need wiring, so this is what's pressuring Commodities such as copper. You need iron ore for steel, and so this process is perpetuating inflation in the Emerging Market space which is really being exacerbated by the fact that currencies in those regions, they're reluctant to allow their currencies to appreciate because that would actually dampen growth so they don't want to do that and they're effectively forced to import the accommodative policies from the Developed world. So there's this cycle where what's happening in the Developed world is feeding into Emerging Market space and perpetuating what we see as a very long-term, secular trend to support Real Assets. So I'm not saying that we're expecting rampant inflation of 16% but I'm just saying that we expect to see inflationary environment rather than a deflationary one, and our research is showing that it actually doesn't take a lot of inflation to support asset prices, right? You actually just need any inflation and you'll get a positive effect from it.

Male 7: Well, do you want - is this going to be your presentation here or you...?

Gina Toth: This is the [one].

Male 7: Perfect. Because I'd like for you to just please finish [that account] you gave earlier today, somebody asked you this morning if you thought Greece was



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going to default and what would that mean? And then I think it was [if it were to fail] I think was the broader [laughter] question.

Gina Toth: Yes, that's a different question.

Male 7: Because what you had said was very optimistic [here] and I think there was some sense of [getting ruled] by some people in the audience.

Gina Toth: So, I answered the second question first I guess which is will Europe, the Eurozone fail? We don't think so. We don't think that that's likely to happen. It's in everyone's best interest that they come to a reasonable solution and that they actually maintain the Eurozone. What's clear is that they actually have to set new rules. They weren't really prepared for what they have been facing and I think I am comparing the Eurozone earlier to, if you would think if everybody in your household set their own budget and just spent however much money they wanted regardless of how much money your household can actually generate, that's the Eurozone. Because what you have is you have a system that was a flawed design. They're all attached to the hip by a monetary policy but yet they're completely independent in terms of their fiscal policy. So, when this was created, they all thought that everyone would act responsibly, [laughter] not build up too much debt, not live beyond their means and that didn't happen. [Laughter] So now they're scratching their heads and saying, "Great, now what do we do?" [Laughter] And so they're forced to tighten their belts and do things that people don't like to do and they have to set new rules, a new way to play the game. It's pretty clear that maintaining the Eurozone makes a lot of sense. It allows free trade across countries and it helps position the Eurozone for what this is really intended to do which was be competitive with other major economies like the US, right? So the whole idea was that if Italy and Spain and France and Germany all stuck together, they could actually compete with the US which has always been the benchmark in the world economically, okay? So we think that this will eventually resolve itself and the Eurozone will stay intact. With regard to a Greece default which is a slightly different question, I'm thinking about how this may play out. There are

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actually three potential outcomes. One is that we call it “kicking the can down the road.” So, no real resolution but the Eurozone, in particular with Germany and France continue to dole out the money to Greece and they try and [muddle] along. I think everyone agrees that that’s a failed approach. The markets don’t like it because it doesn’t really solve anything. And then there are two other options. One, we call an orderly default and the other one is a disorderly default. A disorderly default is where the Eurozone members walk away from Greece and they say, “Great, you’re on your own.” In that eventuality, in all likelihood Greece would probably ultimately be forced to leave the Eurozone. We believe that this would create absolute chaos in the markets and we’re not alone. I think Eurozone members also recognize that risk. So for that reason, we actually think that this is the least likely outcome. The more likely outcome and really the one that they seem to be trying to organize here is what we call the orderly default which is saying, “Right. Greece can’t pay its debt. The Eurozone members don’t want to bail it out. So bond holders will have-” [Audio cuts off]

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