

Wealth Management Quarterly

First Quarter, 2007

“The risk of moderately rising inflation concerns us. In the past 20 years, the dollar has lost 60% of its purchasing power, and affluent individuals are experiencing substantially higher inflation than government statistics suggest. Over the longer term, our preferred hedge against inflation is equities.”

From the commentary of John Nielsen, Chairman of the Asset Allocation Policy Committee, and Peter D'Agati, Head of the Portfolio Strategy Research Group, page 4.

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BROWN BROTHERS HARRIMAN WEALTH MANAGEMENT

Wealth management for affluent individuals and their families has been a core business at Brown Brothers Harriman for over 80 years. The firm currently oversees \$43 billion in client assets, including \$17 billion for families and individuals. We are known for our tax-efficient approach and unparalleled personalized client service, and provide oversight of outside managers when appropriate. Our Relationship Managers are assigned responsibility for a limited number of client relationships, a structure that maximizes the time and attention each client receives.

BBH's Trust Companies offer experienced leadership in fiduciary, tax, and estate planning that is designed to protect family wealth and the welfare of future generations. We administer all types of personal trusts, from the simplest form of living trust to complicated estate planning vehicles. We also act as custodian of Individual Retirement Accounts, and as trustee of pension and institutional trusts.

Brown Brothers Harriman represents a unique alternative in today's financial marketplace. We do not participate in securities underwriting, act as a dealer or market maker, or engage in proprietary trading, and are thus insulated from many of the conflicts of interest prevalent in the asset management industry. As the only remaining major partnership bank in America, our partners assume unlimited liability for the obligations of the firm, and are active in the management of its day-to-day business activities. We are proud of our history, but more so of the loyalty shown us by generations of clients who have grown accustomed to sophisticated, prudent, personal service.

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To our readers in the United Kingdom: This publication has been issued by BBH and is distributed in the United Kingdom by Brown Brothers Harriman Ltd., which is regulated by the Financial Services Authority. All of the disclosures listed above also apply to Brown Brothers Harriman Ltd.

Key publication for private-client audience, one part of master communications deliverables plan for Brown Brothers Harriman Wealth Management unit. Supervised development of tone, look, and editorial presentation; wrote content (including core text on back cover above right), and edited content generated by in-house talent.

Alternative Investments

The case for emerging Asia

John R. Hass, Managing Director

Brown Brothers Harriman has for some time recommended that clients consider allocating a portion of their overall equity portfolio to international equities. In mid-2005, we took the additional step of focusing on the emerging markets of Asia. This step was consistent with our effort to identify attractive investment opportunities where the markets are less efficient and where outstanding money managers can far exceed their peers and market benchmarks to deliver truly superior returns. BBH considered four important factors as we evaluated the opportunity in emerging Asian markets:

Rapid growth region. We wanted our clients to have the opportunity to participate in one of the major economic developments of this era: the rapid emergence of both an industrial base and a middle class among the roughly 3 billion people in China, India, and the rest of emerging Asia. As tables 1 and 2 show, there are strong thematic "tailwinds" that favor strong growth in these regions.

Table 1: Key Economic Data

	U.S.	Japan	China	India	Korea
2006 (E) GDP Change (Real %)	3.6	2.4	10.1	9.1	4.5
2005 (E) GDP Change (Real %)	3.1	2.9	9.9	8.0	5.2
2004 (E) GDP Change (Real %)	4.6	3.3	8.7	8.7	4.7
Labor Cost Per Hour (U.S. \$)	23.2	21.0	0.9	0.8	11.8
Current Account Balance / GDP *	-8.7	4.1	1.6	0.4	1.5
Foreign Account Reserves (U.S. \$ Bn)	39	833	819	138	217

* Current account balance as a percentage of GDP purchasing power parity (2005 estimate)
Source: Bloomberg OCEC, U.S. Dept. of Labor, BBH analysis

Table 2: Economic and Demographic Trends

	Asia	U.S.	Europe
Economic GDP Growth	Rapid	Moderate	Slow
Equity Valuations	Low	High	High
Market Efficiency	Low	High	High
Demographics	Young*	Mature	Mature
Trade Surplus/Deficit	Surplus	Deficit	Deficit
Consumer Debt	Low	High	High

* Non-Japan Asia
Source: Bloomberg OCEC, U.S. Dept. of Labor, BBH analysis

Broad exposure. China and India are not a significant part of the established emerging markets equity indices. In addition, the established emerging market equity indices are dominated by a small number of large companies, which typically have substantial dependence on the U.S. export market and/or

have significant state-controlled ownership. Simply investing in those indices would not accomplish our goal of participating in the growing demand that will occur as these countries develop an industrial base and a middle class.

Bottom-up view. Our review of U.S. and European managers of emerging markets funds indicated that these managers are highly benchmark-linked and often macro-oriented in the way they conduct research. This contrasts with our own preference for a greater level of "bottom-up" analysis done on each company by professionals based in the local markets. The performance of "traditional" emerging markets managers is likely to be highly correlated to major economic swings and thus highly volatile.

Size and style. We concluded that investing in emerging Asia should be done on a long-term basis with managers who are based in the region and who embrace a bottom-up value style of investing. The value style enables the managers to consider the absolute value of their portfolio companies and provides some protection from momentum driven excesses that frequently plague developing markets. In addition, we believe that the ideal managers will have a significant part of their portfolios in small- and mid-sized emerging companies poised for long-term growth. These stocks in many cases trade at meaningfully lower valuations than their larger counterparts.

Jay Hass is manager of BBH's Alternative Investments Group



Consistent with the investment philosophy outlined above, BBH offers an investment fund that participates in the Asian equity markets. The fund's objective is to participate, through exposure to publicly traded Asian equities, in the profits expected to be generated by rapid economic growth in Asia over the next 10-20 years. BBH has aligned itself with a distinguished, Asia-focused subadvisor to assist us in selecting and monitoring Asian-based investment managers that have long experience, rigid investment disciplines, and outstanding track records investing in various Asian markets. For more information, please contact your Relationship Manager.

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BBH News

Our Trust Services Continue to Grow

Merger of State-Chartered Trust Companies into National Trust Company. We are pleased to announce that we have recently merged our Florida and Pennsylvania state-chartered trust companies into our nationally-chartered trust company, Brown Brothers Harriman Trust Company, N.A. This change will enable us to better serve our clients by expanding the trust, tax, and wealth planning services offered in each of our domestic offices and making our fiduciary and tax services more broadly available to clients and prospects who have contacts with multiple states. Under the new structure we have implemented a daily sweep for the investment of all principal and income account cash balances into overnight time deposits with offshore branches of world class commercial banks. This approach results in attractive yields on all available cash balances that are credited to Trust Company accounts at the end of each month.



New Professionals Joining Our Regional Trust Offices. We are also pleased to announce that Michelle Hong has joined our Trust staff in Philadelphia. Michelle comes to us from the Philadelphia law firm of Morgan, Lewis & Bockus LLP, where she specialized in tax-driven estate planning for wealthy individuals and families, and has also donated time operating an estate planning clinic for AIDS patients. She received her law degree from Harvard Law School, where she was an editor of the law review, and her BA from Duke. In addition to Philadelphia, we continue to have fully staffed trust offices in New York, Charlotte, Dallas, and Palm Beach. In the near future, we plan to hire an experienced lawyer to lead our trust, tax, and wealth planning efforts in our Boston and Chicago offices as well. While the continued build-out of our national trust company affords us the ability to expand our services and grow more easily, our commitment to serve our clients and trust and estate beneficiaries with local, dedicated, responsive professionals remains the same.

Trust Company Account Reporting Enhancement. And finally, for clients receiving a BBH Trust Company account statement, we are pleased to update you on a number of improvements:

- A consolidated principal and income Statement of Transactions replaces the separate income and principal Cash Account. All of your transactions are now shown chronologically on one statement.
- Beginning balances, total receipts and disbursements, and ending balances are clearly presented.

- Daily cash sweep transactions are now suppressed, resulting in a less cluttered, easier to read statement.

- Income and principal cash balances are now reflected separately in the Holdings Report by Security Type section of your report.

These changes were reflected beginning with the December statements.

As always, if you have questions about these Trust Company changes — or any other aspect of your relationship with BBH — we encourage you to be in touch with your Relationship Manager or Trust Officer.

New York Client Event a Success

The New York Private Wealth Management offices held their annual Wealth Management Seminar and cocktail reception at the Explorers Club on November 14th. Clients enjoyed the ambience of this unique New York meeting place for adventurers and scientists from around the world, housed in an elegant Tudor-style townhouse and packed with artifacts, charts, maps, and memories from historic journeys of discovery. The crowd was greeted by honorary club president Jim Fowler, one of the world's best-known naturalists, who later gave a tour of some of the club's more interesting nooks and relics. Opening remarks by Bob Gould, Partner in charge of Private Wealth Management, on the state of wealth management at BBH were followed by a discussion of equity investing by Partner Rick Witmer and Managing Director Tim Hartch, Co-Managers of our Domestic Equity Team. They were joined by BBH equity analysts Scott Hill and Regina Lombardi, who answered questions from clients in an informal Q&A following the presentation. If you didn't get a chance to join us for this enjoyable and informative event, please join us for the next one! Invitations will arrive well in advance.

Palm Beach Client Event Coming Up

The Palm Beach Private Wealth Management office will be hosting its annual Wealth Management Seminar on Thursday, February 22nd at Club Colette, which resides in an historic Palm Beach structure owned by Aldo Gucci, of handbag and shoe fame. Cocktails and dinner will be served, and featured speakers will be Partners Bob Gould, Head of Private Wealth Management, and Rick Witmer, Co-Manager of our Domestic Equity Team, as well as BBH equity analyst Scott Hill. Our Palm Beach clients will be receiving invitations in the mail. Any of our BBH clients who plan on being in the area at that time are welcome to attend. Please ask your Relationship Manager for details.

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Ghost-wrote and edited wealth planning, product, and public relations pieces for Brown Brothers Harriman Wealth Management Quarterly, key publication for private-client audience.

Crafting a Sustainable Distribution Policy for Endowments & Foundations

Implications for Asset Allocation

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Endowments and foundations play a critical role in the economy of the United States. Even without taking into account the substantial wealth held in university endowments, private and community foundations hold almost \$500 billion in assets and provide over \$30 billion annually to support education, the arts, medicine, science, the environment, technological research, and a multitude of other programs and beneficiaries. Most endowments and foundations are designed to be perpetual, ideally suiting them to address the long-term challenges facing the world today; and there is little question that the allocation of private capital through these organizations is globally vital. Yet there is also little question that the problems which foundations are dedicated to solving today will still be with us tomorrow, a situation which requires trustees to establish a distribution policy that balances the needs of current and future beneficiaries. Our experience has indicated some effective approaches to meeting this challenge, and we explore the issues and possible remedies below.

Spending Rates and Distribution Policies

Most endowments and foundations seek to balance present and future needs by spending or distributing a set percentage of the asset base (corpus) each year, thereby ensuring a steady stream of financial support while maintaining or even growing the asset base to support future distributions. Establishing an appropriate spending rate is one of the most important and challenging tasks which trustees face. Setting the spending rate too high dooms the corpus to gradual depletion, while setting the spending rate too low starves current programs. A suitable distribution policy acts as the fulcrum on which a board of trustees can balance the needs of the present and the future.

The best starting point for establishing a spending rate is to make a reasoned projection of what level of distribution the foundation's assets will sustain. This is, of course, only a starting point, as trustees typically consider other factors as well. Anticipated donations to the foundation may allow for a higher spending rate than asset returns alone would permit. Although most endowments and foundations are perpetual, a board of trustees may decide to spend down the assets completely over time in pursuit of an urgent goal, such as curing a specific disease. The expectation of expanding the mission of a foundation in the future may warrant a lower spending rate today in anticipation of greater future needs. In the case of private foundations, the Internal Revenue Service weighs in on the question by requiring foundations to spend at least 5% (including reasonable administrative expenses) or face substantial penalties. Each and every board of trustees must consider a host of different factors, yet the one issue common to all endowments and foundations is whether assets will support the desired spending rate.

Making that determination, however, isn't as simple as it may seem. If a board of trustees simply sets its spending rate equal to the nominal returns provided by the asset base, not only will distributions gradually fail to support committed programs, but the asset base itself will, over time, shrink. Two further factors must therefore be taken into account when balancing a distribution policy with the requirement for investment returns: inflation and expenses.

Inflation is a silent thief of value. After a period of historically low inflation in the early years of this decade, it is easy to lose sight of the destructive nature of rising prices on the ability of a foundation to meet ever-rising funding needs. If a foundation intends to maintain perpetual funding for the pro-

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PRIVATE WEALTH MANAGEMENT

Brown Brothers Harriman represents a unique alternative in today's financial marketplace. As a private firm that does not participate in securities underwriting, Brown Brothers Harriman is insulated from many of the conflicts of interest prevalent in the asset management industry. We are an experienced fiduciary dedicated to building customized portfolios and providing a superior level of personalized service. Our success is predicated on our ability to partner with our clients in an effort to identify, implement and monitor a strategic approach designed to meet their objectives.

Wealth management for affluent individuals and their families has been a core business at Brown Brothers Harriman for over 80 years. The firm oversees approximately \$36.8 billion in assets under management, as of December 31, 2008, of which approximately \$12 billion is for families and individuals. We have a point of view on investing. We believe in preserving capital at all times, and in enhancing purchasing power over the longer term with a tax-efficient approach. We partner with outside managers who share this philosophy.

Brown Brothers Harriman is known for our unparalleled client service. With a limited number of relationships, our investment professionals are free to work with each client independently, offering both in-house and open architecture financial solutions. Our clients get to know the Partners of the Firm, which ensures access to ownership and continuity of their relationship. Brown Brothers Harriman's Trust Companies offer experienced leadership in fiduciary, tax, and estate planning that is designed to protect family wealth and the welfare of future generations.

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Website for Brown Brothers Harriman's high-net-worth audience (clients/intermediaries/family offices), one part of master communications deliverables plan for BBH's Wealth Management unit. Supervised development of tone, design, navigation, and editorial presentation. Wrote core content (including text and linked pages in center column above) and repurposed tactical content (linked pages in left column). Still in use.

BBH Investment Management
2006 Talking Points

IM overall

- AUM rose 9.3%, from \$40 billion to \$43.7 billion, led by our Institutional business, which grew by 10%.
- We successfully redeveloped and rolled out BBH Online, our client account data service. This was one of our largest client-facing Investment Management projects to date. The new version provides vastly greater information to our clients at lower cost to BBH, and is an important step in our PWM business plans, with the potential to become the principal channel for communication for many clients.
- Almost \$1 billion in equity assets were moved to our central account platform.
- Marty Levine, with two decades of experience managing institutional real estate portfolios, oversaw the creation and rollout of a private real estate fund for our institutional and private clients.

Institutional Fixed Income

- BBH was voted #1 Captive Asset Manager in the *Reactions Magazine* 2006 Captive Survey, as well as cited as Top Three Best Bank/Letter of Credit Providers.
- The “BBH Fixed Income Quarterly” was created and rolled out as the flagship publication for IFI, sent to every client and finding successful use with prospects and consultants.
- Jeremy Shor, Director of Structured Products, was identified as one of “20 Rising Stars of Fixed Income, 2007” by *Institutional Investor* magazine.

Private Wealth Management:

- We successfully began the redefinition of roles for our Office Heads and Relationship Managers.
- Seth Ward was brought in to become a strong leader of PWM in our Boston office.
- The “Wealth Management Quarterly” was created and rolled out as the flagship publication for PWM, sent to every client and finding successful use with prospects and intermediaries.

Trust Companies

- Our trust companies were converted or merged into a National Trust Company, enabling us to provide trust services in all 50 states, while retaining our regional expertise.
- New Trust professionals came aboard, providing a strong, experienced Trust presence in each of our Investment Management offices.

Conceived and wrote core talking points for Brown Brothers Harriman, circulated internally to establish and maintain consistent message to clients, prospects, consultants, and business partners.