The Alternative Outlook

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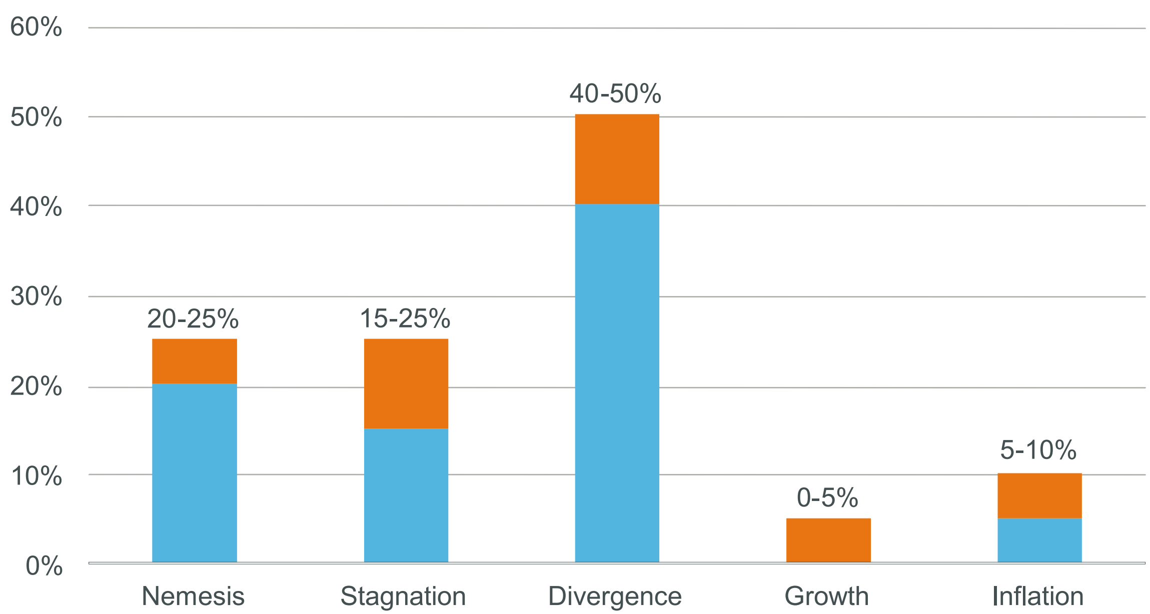
2012 Investment Scenarios

Scenario Probabilities

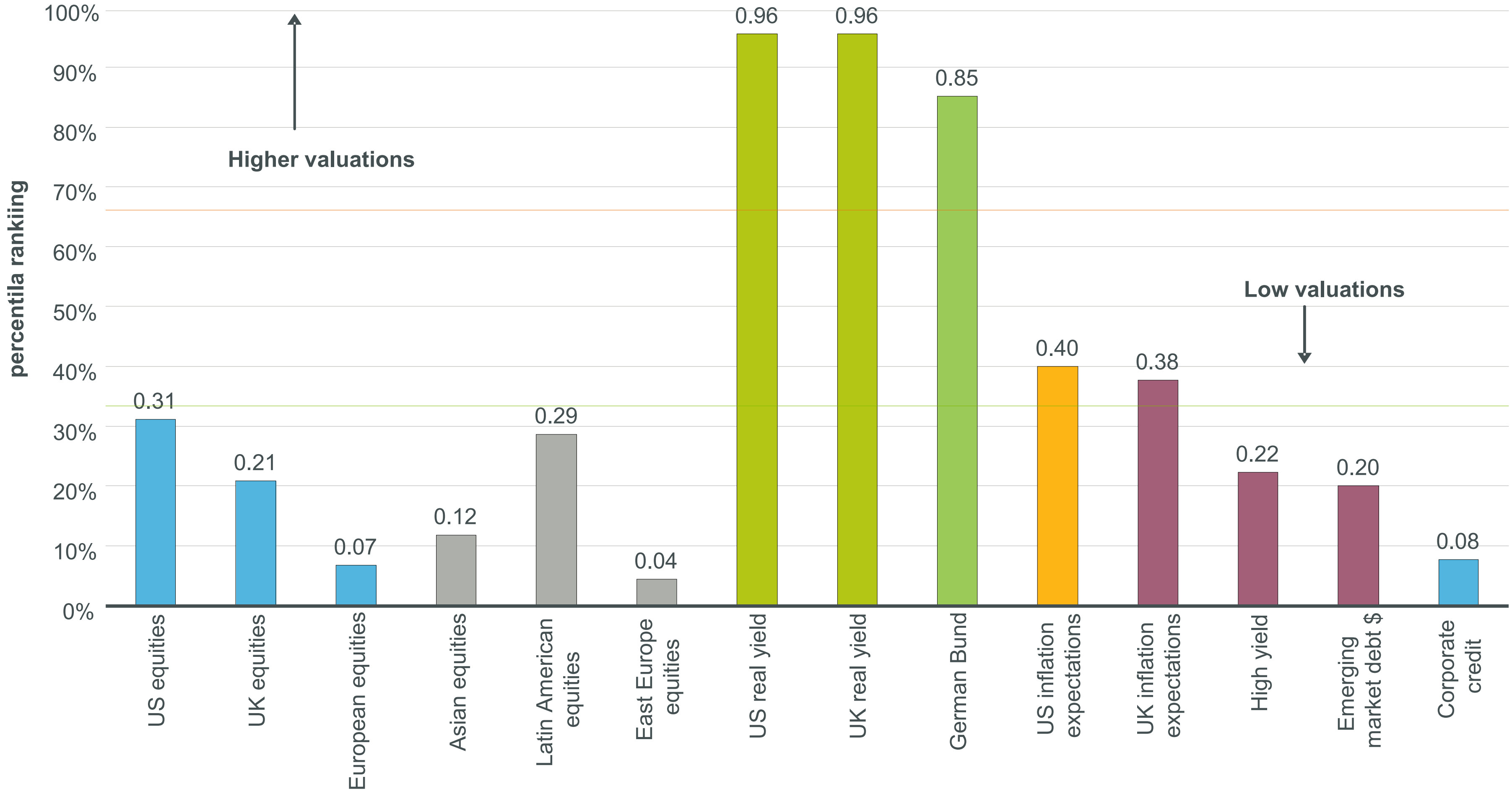
- We are currently at stagnation
- It was also agreed that this is not likely to be sustainable for all of 2012, and a move towards either Nemesis or fragmentation/divergence is expected by the majority of the investors

Scenario probabilities



What do Asset Prices Tell Us?

Asset Class Prices Relative to History (Percentiles relative to own asset class history)



Source: DataStream, Bloomberg as of Q4, 2011
Note: Time period varies for each asset class, depending on when the indices/asset classes were created
Equity valuations are the average of three measures: Dividend yields, book value (marked-to-market), and PE

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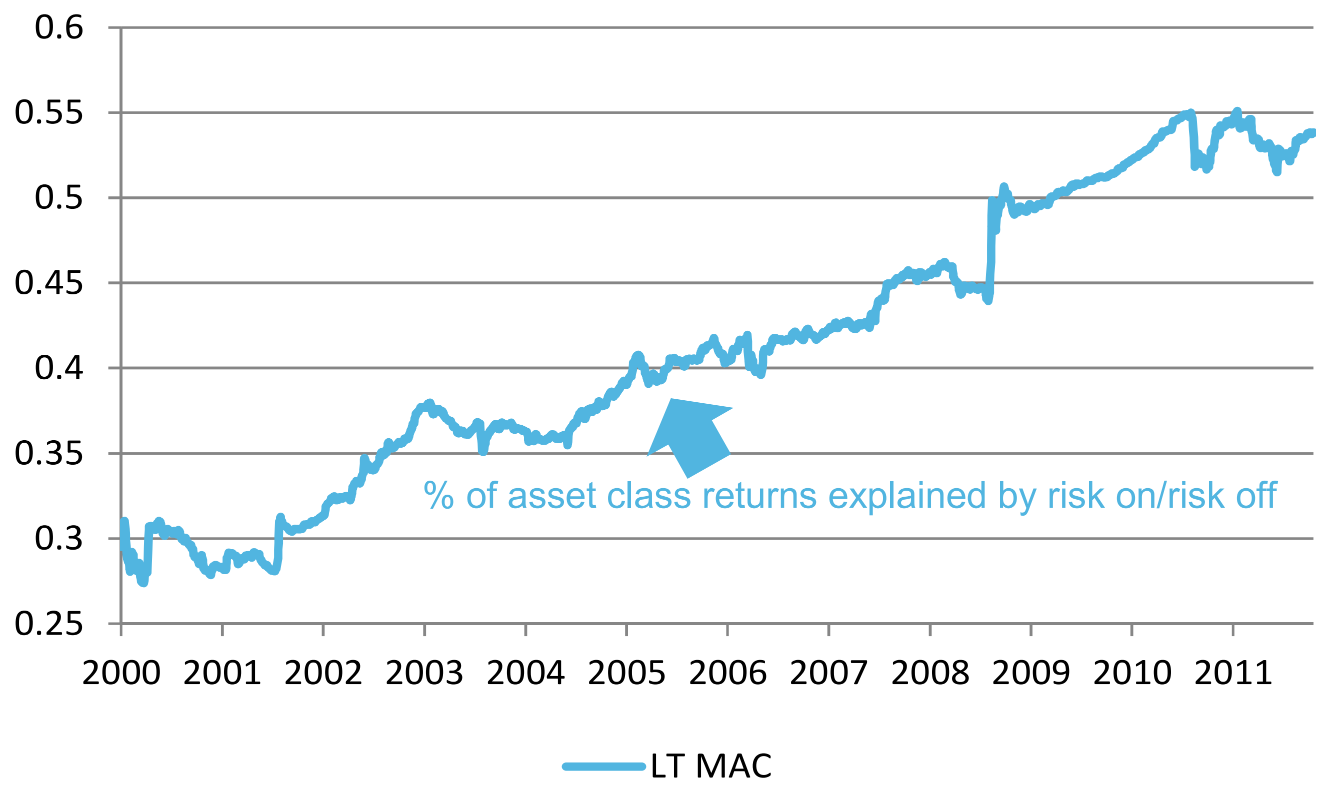
We are in a "Risk On/Risk Off" World

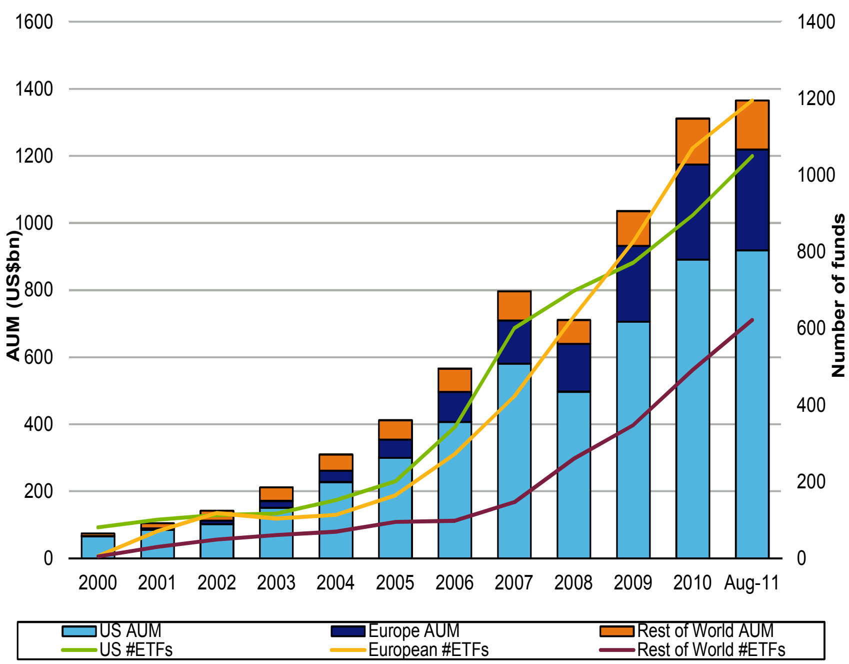
Risk On and Risk Off Asset Classes are Highly Correlated

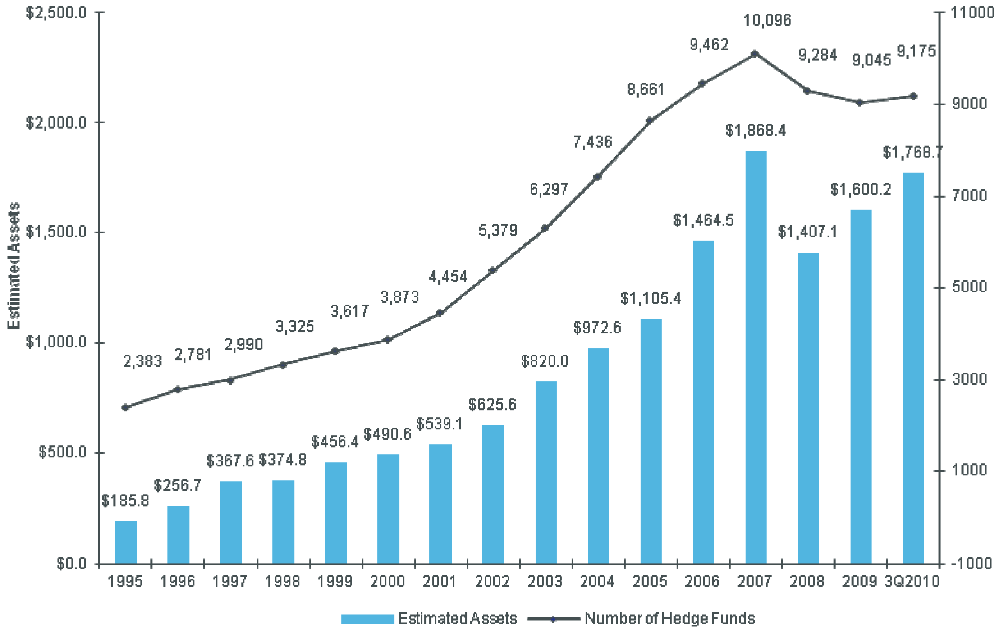


Source: BlackRock

The Drivers of Risk On Risk Off

- The economy is more global (50% of European companies are outside Europe)
- Information is more abundant and has fostered a short term horizon culture
- New instruments are available to change asset allocation rapidly (ETFs)
- New players have entered the markets (hedge funds)
- Diminishing counter-party liquidity
- Forced deleveraging and regulatory impacts



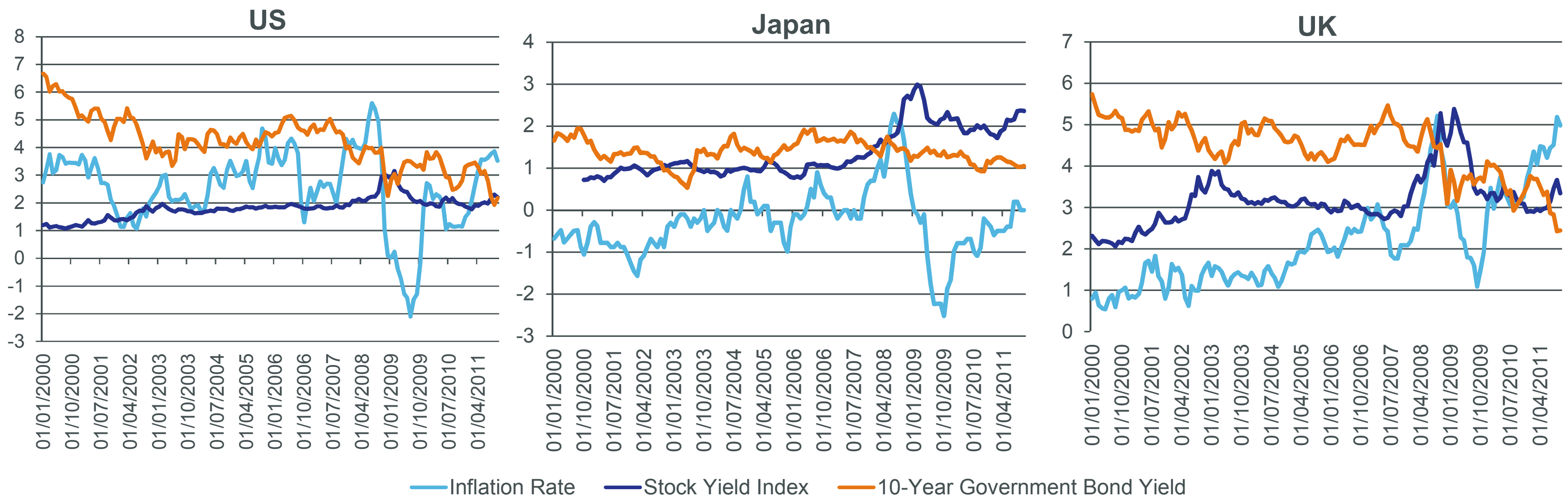


Source: BlackRock

The Hunt for Yield is On

- The world will have 2 billion pensioners by 2050
  - Meanwhile, safe havens are no more, top-rated bond yields are at record lows and in some instances negative
  - Where will people get yield?
    - High yield, corporate bonds, dividend stocks, Asian fixed income, alternative investments (private equity, infrastructure and real estate), and options strategies
    - Real estate securities look pricey after a big run-up in late 2011
    - High Yield bonds and dividend stocks have appreciated but still offer value
      - The key with equities is dividend growth, not yield

Real Bond Yields have Turned Negative in Many Developed Markets



Source: Thomson Reuters; Stock index dividend yields based on S&P 500, Topix, and FTSE All Shares

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What do we really mean by 'alternatives'?

Two related definitions

An asset where the return is not directly linked to the return available from a publicly traded investment

- Implications – are listed real estate and hedge fund replication vehicles really 'alternative'?

An asset where the return is (at least partially) a function of factors that are not easily observable

- Examples might include 'liquidity premium' or 'alpha skill'

To justify an allocation an asset has to either improve diversification and / or improve net returns over time

- Consistent with all risks and costs, direct and indirect
- Diversification does not have to be in a 'normal' environment, and indeed may be most valuable in 'non normal' times

Not just different, also useful………!

The institutional client landscape

Against this backdrop, what are the challenges and opportunities for investors

Market related challenges

- Demand for returns/yield remains, but few options available in traditional asset classes
- Protection sought against rising rates and inflation

Investor specific challenges

- Intense focus on liquid investments
- Derisking is reducing appetite for equities
- Pension funding ratios remain challenged: Most UK pension funds still in deficit (relative to 'buy out')

Alternative investments are well positioned to cope with the current environment

Sample Types of Alternatives	1. Return enhancement	2. Risk diversification	3. Inflation protection	4. Downside protection
Hedge funds or fund of hedge funds	✓	✓		✓
Real Estate Equity		✓	✓	
Private Equity	✓	✓		
Commodities		✓	✓	
Infrastructure		✓	✓	
Diversified Growth	✓	✓	?	

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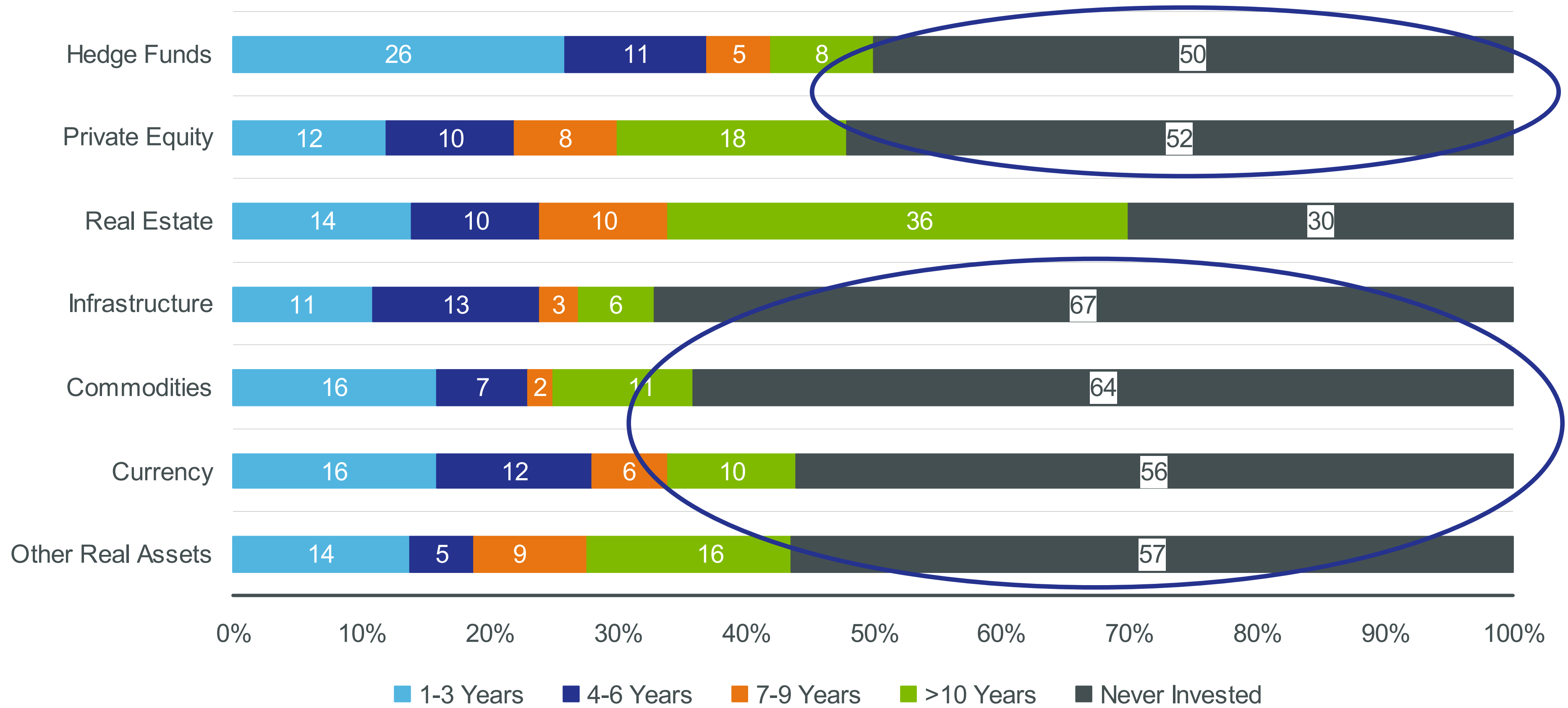
UK Pension Alternative Investments

- More than half of all UK investors have never invested in alternatives (exception: real estate)

Asset class split by region



Source : JP Morgan Asset Management, ALTERNATIVE ASSET SURVEY 2010, Uncovering the latest trends in alternative investments.

Expected increase in alternatives by institutional investors

- **According to Russell Investments, most of the increase in alternative investments is expected to be drawn from a reduction in existing equity allocations**
  - **Higher correlations between global equity sectors, styles and regions since 2008 have increased interest in alternative strategies that can help to diversify portfolios and reduce equity beta exposure**
  - **However, we would suggest investors are increasingly waking up to the risk in their bond portfolios and thinking about using alternatives to help protect against rising rates or inflation**

Russell Investments 2010 Global Survey on Alternative Investing

Type	2009 Allocations	2012 (Expected Allocations)	2012 Expectations relative to 2009
Private Equity	3.1%	4.9%	158%
Hedge Funds	4.2%	5.7%	136%
Real Estate	4.1%	6.6%	161%
Infrastructure	0.3%	1.4%	467%
Commodities	0.7%	1.1%	157%
Totals	**12.4%**	**19.7%**	**159%**

Source: Russell Investments' 2010 Global Survey on Alternative Investing - Evaluation and re-commitment: the next phase for alternatives, June 2010
EMEA participants (by assets) constituted 55% of respondents

The spectrum of alternative investments

Short-Term Opportunities → Intermediate-Term Opportunities → Long-Term Opportunities

Investment Holding Period: 2 Years | 4 Years | 6 Years | 8 Years | 10 Years | 12+ Years

Commodities	Hedge Funds	Real Estate	Private Equity	Infrastructure
Passive	Relative Value	Core	Distressed	Privately Financed
Enhanced	Event Driven	Value-Add	Venture Capital	Core
Active	Fundamental L/S	Opportunistic	Buyout	Value Add
	Direct Sourcing	Mezzanine Debt	Growth Capital	
	Global Macro / Directional Trading		Mezzanine	

Diversifying your alternative investments

Annual returns of alternative and traditional asset classes 2000 to 2010

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Commodities 24.21%	Real Estate 7.28%	Commodities 23.86%	Private Equity 26.62%	Private Equity 22.68%	Agriculture 33.90%	Private Equity 29.89%	Private Equity 21.60%	Agriculture 15.84%	Equities 23.34%	Private Equity 18.63%
Real Estate 12.24%	Bonds 4.74%	Bonds 9.59%	Commodities 22.66%	Agriculture 20.50%	Private Equity 28.63%	Agriculture 21.15%	Agriculture 15.90%	Bonds 4.27%	Commodities 18.72%	Commodities 16.67%
Bonds 9.48%	Hedge Funds 2.80%	Agriculture 6.86%	Equities 22.27%	Real Estate 14.48%	Real Estate 20.06%	Real Estate 16.59%	Real Estate 15.84%	Real Estate -6.48%	Hedge Funds 11.47%	Real Estate 13.11%
Agriculture 6.98%	Agriculture 2.01%	Real Estate 6.74%	Hedge Funds 11.62%	Equities 9.19%	Commodities 17.54%	Equities 14.83%	Commodities 11.08%	Hedge Funds -21.39%	Private Equity 10.09%	Agriculture 8.81%
Hedge Funds 4.07%	Private Equity -10.84%	Hedge Funds 1.01%	Agriculture 9.68%	Commodities 7.64%	Equities 14.05%	Hedge Funds 10.39%	Hedge Funds 10.26%	Private Equity -25.07%	Agriculture 6.32%	Equities 8.28%
Private Equity 0.31%	Equities -15.04%	Private Equity -5.24%	Real Estate 8.99%	Hedge Funds 6.87%	Bonds 8.34%	Bonds 0.70%	Equities 3.73%	Commodities -36.31%	Bonds 3.74%	Bonds 7.94%
Equities -9.36%	Commodities -22.32%	Equities -25.81%	Bonds 4.04%	Bonds 6.78%	Hedge Funds 7.49%	Commodities -2.71%	Bonds 3.27%	Equities -39.87%	Real Estate -16.86%	Hedge Funds 5.70%

Traditional Equities – MSCI World (USD Hedged)
Private Equity – Thomson Reuters PE: Buyout
Commodities – Dow Jones UBS Commodities
Traditional Bonds – BofAML Sterling Broad Market Index
Real Estate – NCREIF Property Index
Hedge Funds – HFRI Fund of Funds composite
Agriculture – NCREIF Farmland

Source: Bloomberg, Hedge Fund Research, Venture Economics, NCREIF. Data as of Q4 2010. Returns calculated using quarterly returns since Q1 2000.

Commodity Correlations

Historically, commodities have had a low correlation with the returns on financial assets...

- This is particularly true when the impact of foreign (US$) currency exposure in commodities and foreign assets is removed

… and this is likely to persist in future

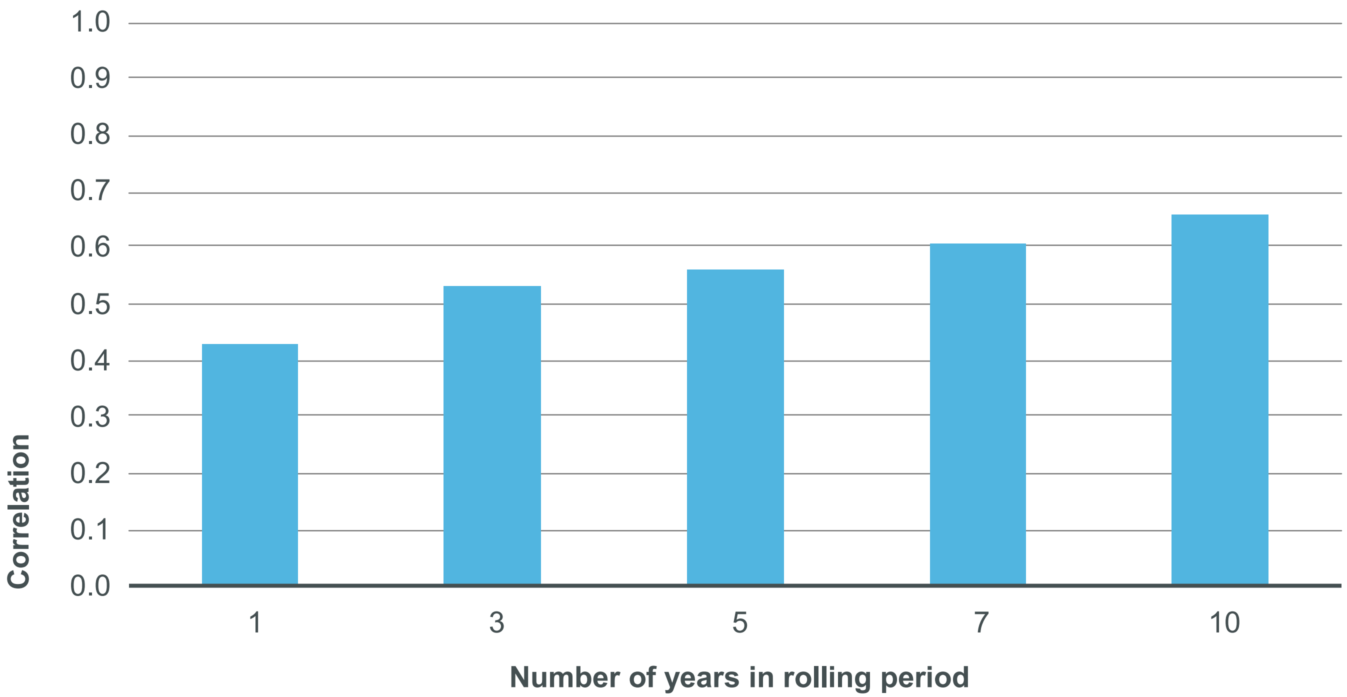
- If commodity price changes are demand-led we would expect rising commodity prices to be positively correlated with equity returns...
- … but a supply side shock to commodity prices (e.g. an 'oil crisis') is likely to see equity and commodity prices moving in opposite directions
- Higher commodity prices are likely to be linked to higher general inflation which will cause a fall in bond prices

Commodities therefore only require a relatively low expected return to be included within a portfolio despite their high volatility

Correlation of commodity price inflation with consumer price inflation

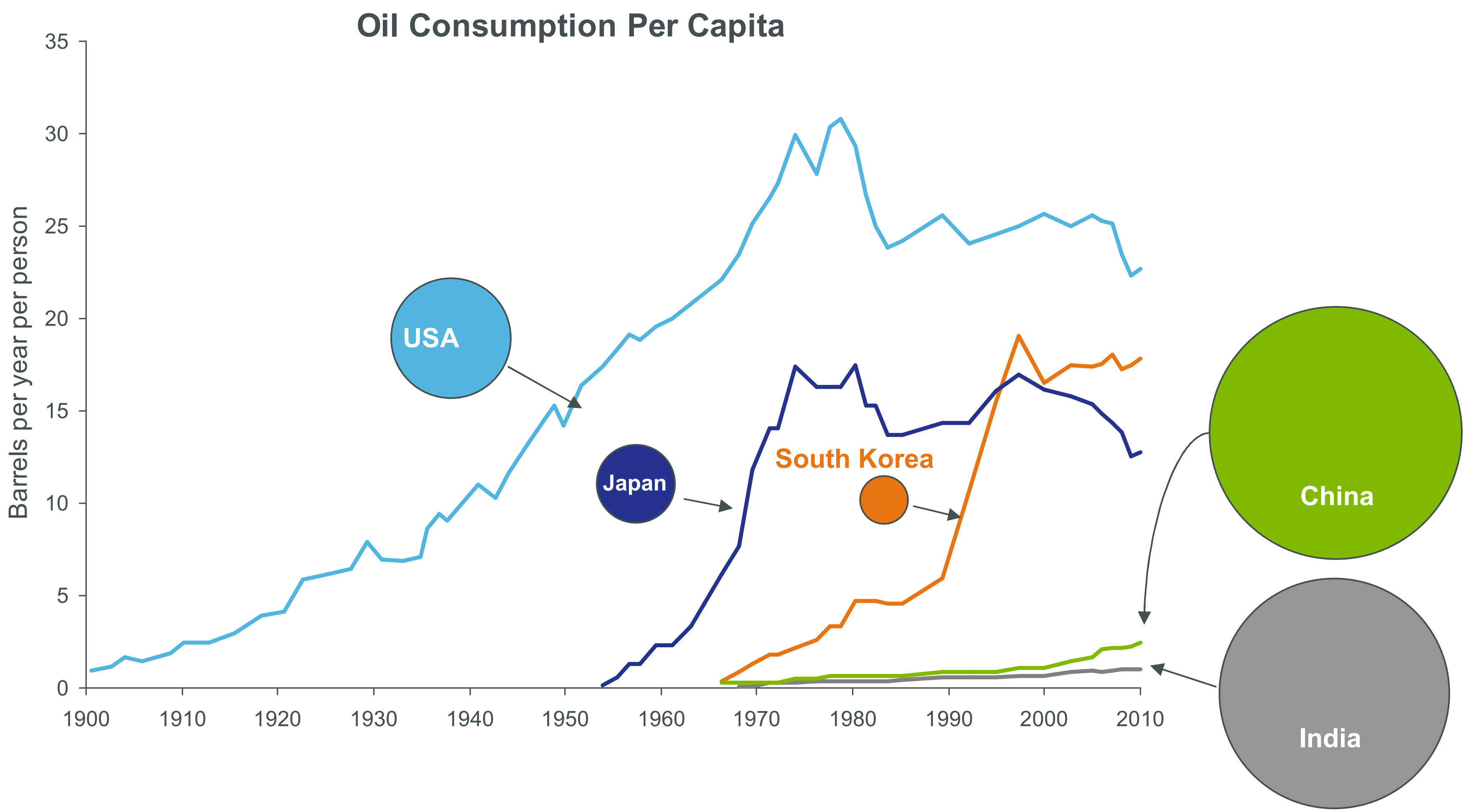
- As a production input, commodity prices are clearly linked to the general rate of inflation
- Commodity investment therefore provides some protection against inflation surprises
- Commodities' correlation with inflation is stronger over the long term

Correlation of commodity price inflation with US CPI inflation rolling periods 1924 to 2010



Source: Commodities Research Bureau, Global Financial data Inc, BlackRock

Oil – China and India Have Hardly Started



Non-OECD countries are the drivers of long term energy/oil demand growth

Source: BP Statistical Review of World Energy 2010, Respective Census Bureaus

Note: Size of bubbles represent population size

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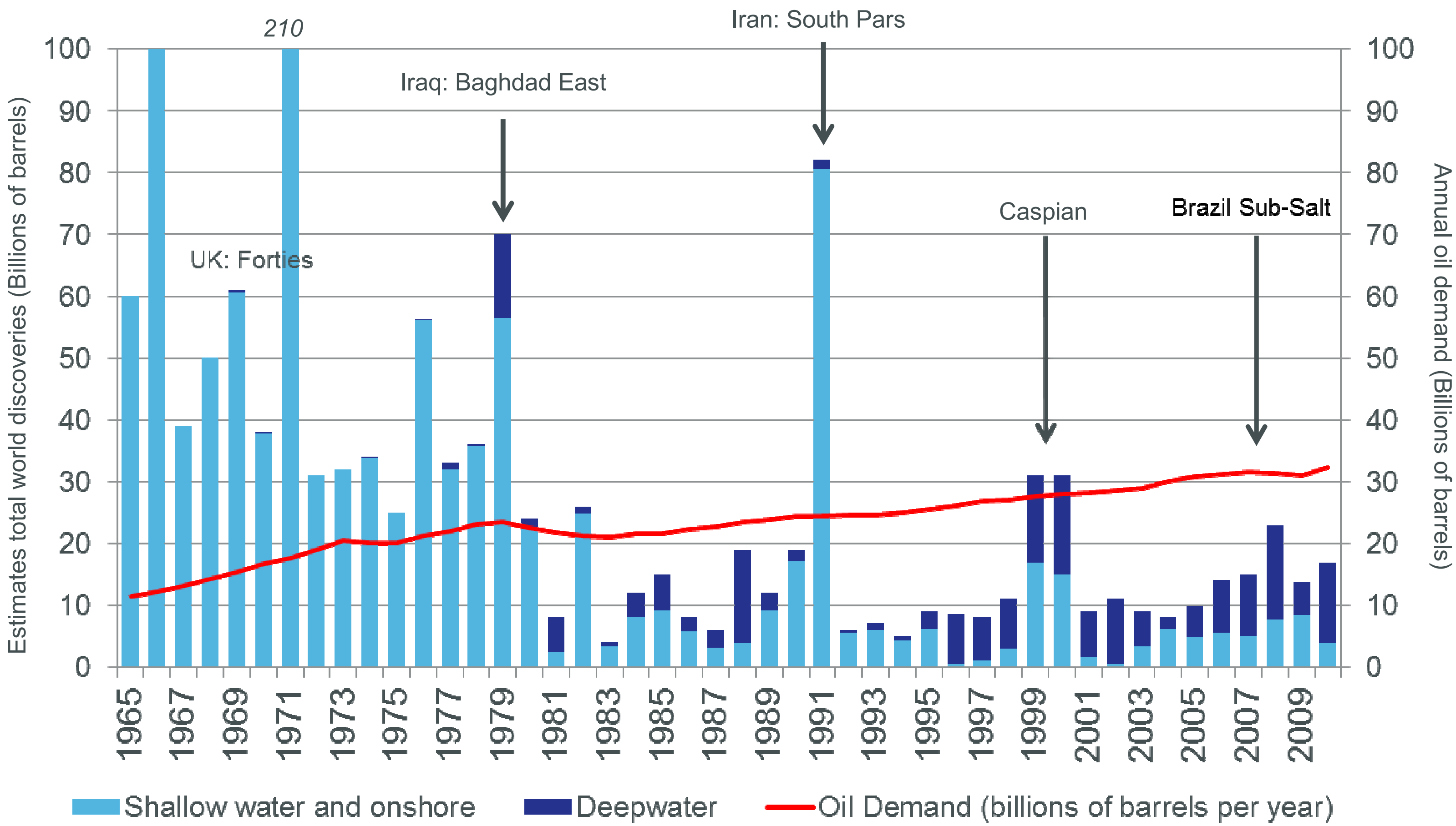
Oil Supply has been challenged

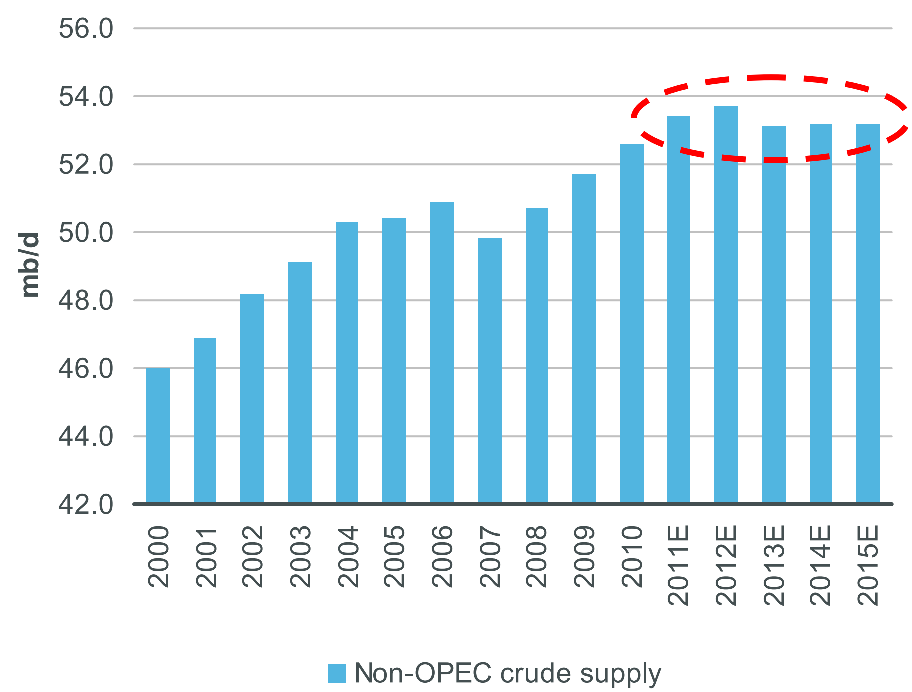


Since the 1980's the world has consumed more oil each year than it has found

Source: Bernstein Research, October 2011

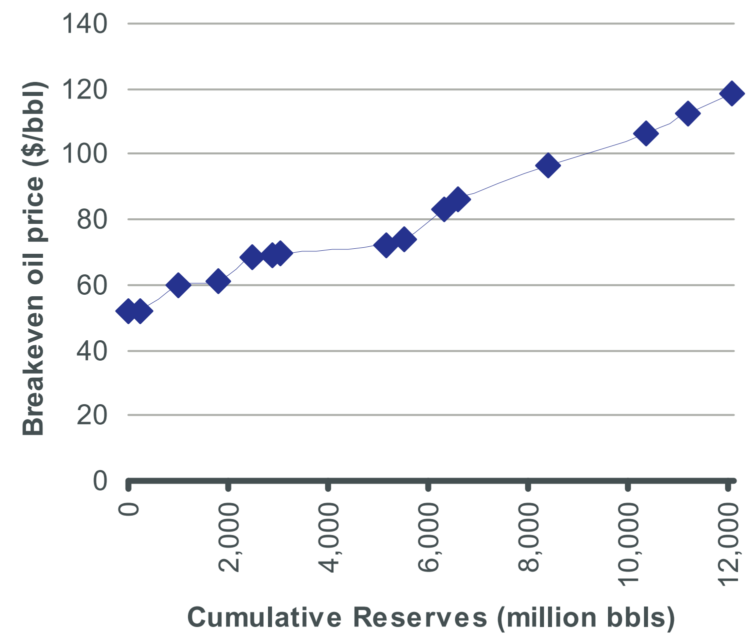
The outlook for future supply growth appears bleak

Non-OPEC Supply is constrained



Source: IEA September 2011.

New oil sands developments – large reserves but high cost

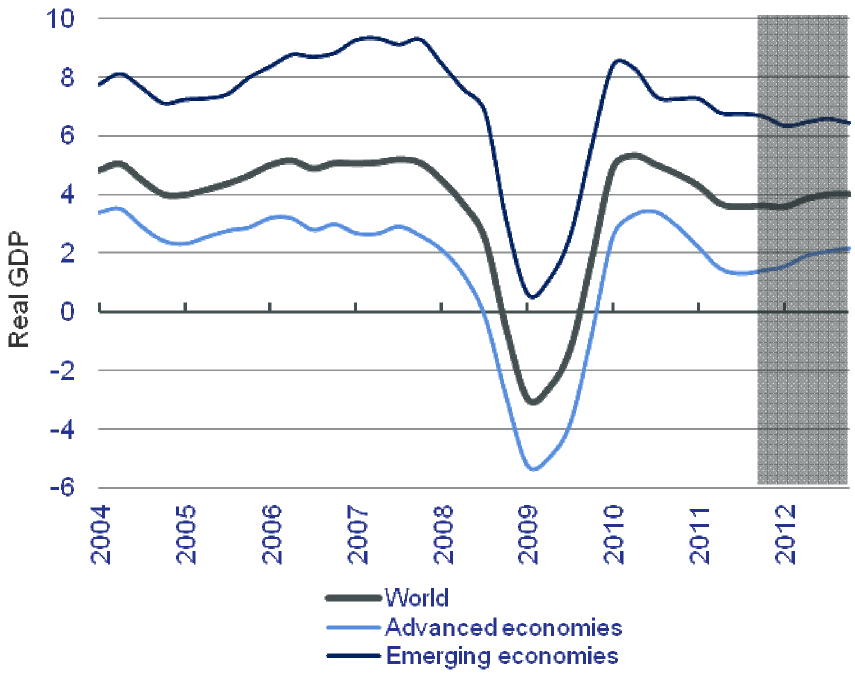


Source: Wood Mackenzie. Oil sands projects with development plans expected to be approved over the near term. Internal rate of return of 10% in nominal terms.

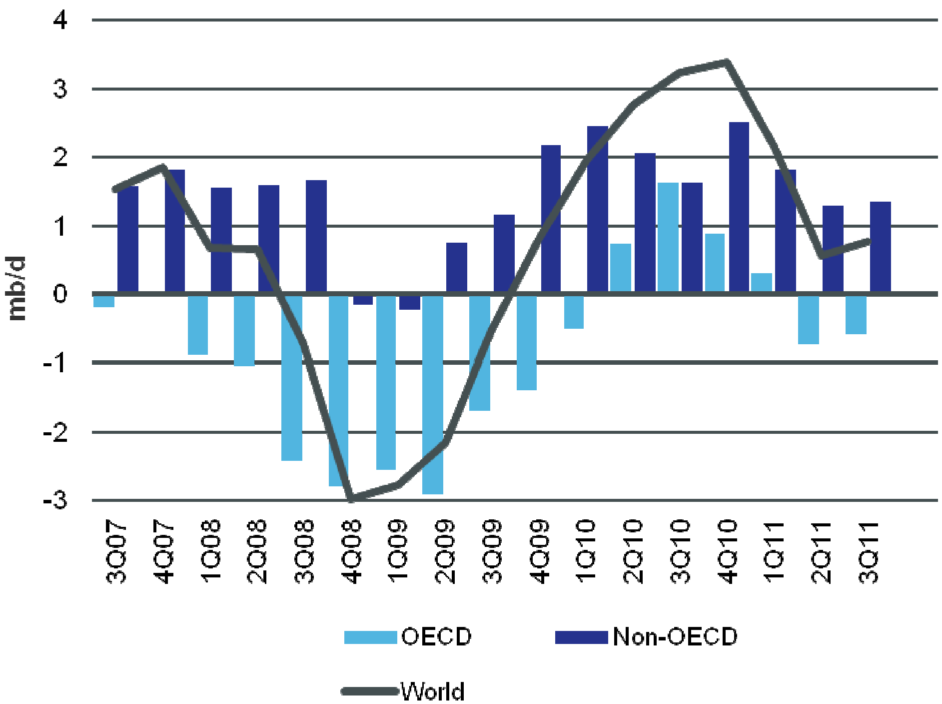
The cost of replacing current oil production is rising

The global economic cycle drives short term oil demand

% Change in real global GDP (QoQ, annualised)



Quarterly oil demand growth (Δmb/d YoY)



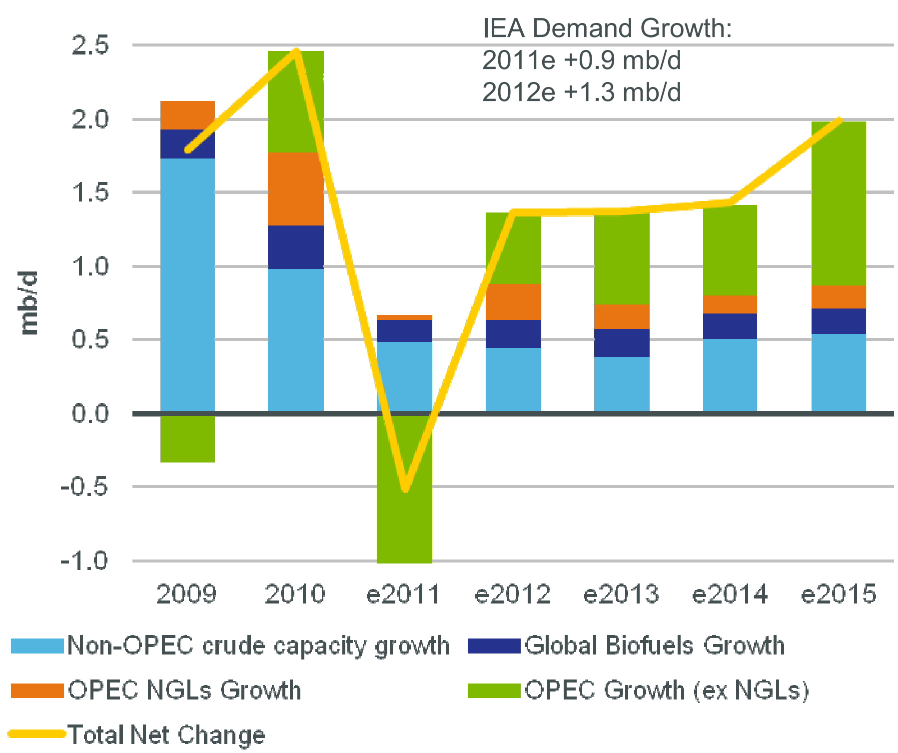
Oil demand growth has recovered to pre GFC trend levels

Source: IMF World Economic Outlook "Slowing Growth, Rising Risks" September 2011

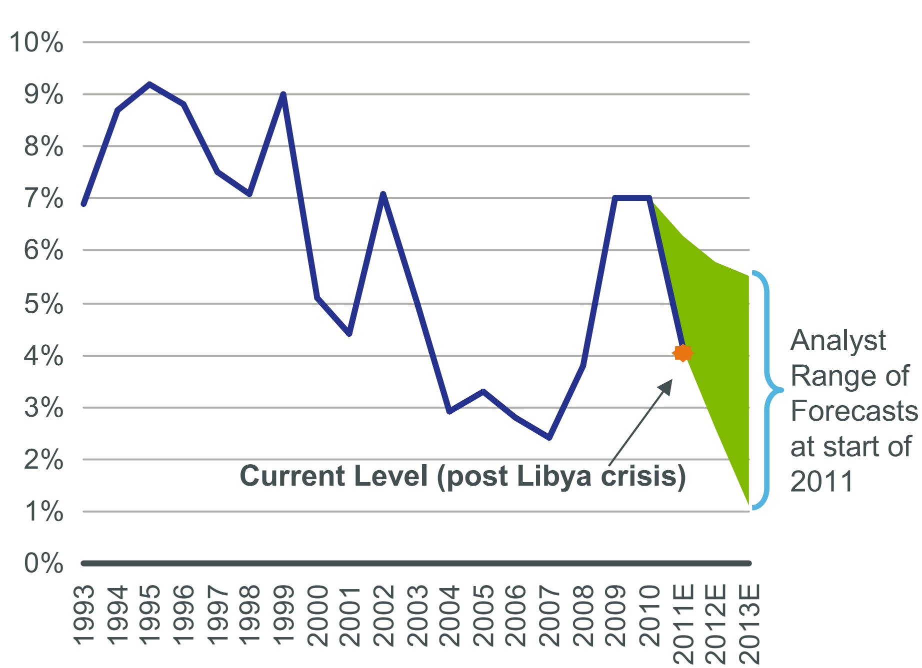
Source: IEA November 2011.
Global Oil Demand +0.9 mb/d 2011 YoY and +1.3 mb/d in 2012

Oil supply growth has not kept pace – spare capacity has been falling

World Oil Supply Growth by Region (mb/d)



OPEC Effective Spare Capacity (% World Oil Demand)



Supply & Demand has tightened in 2011, OPEC spare capacity peaked in 2010

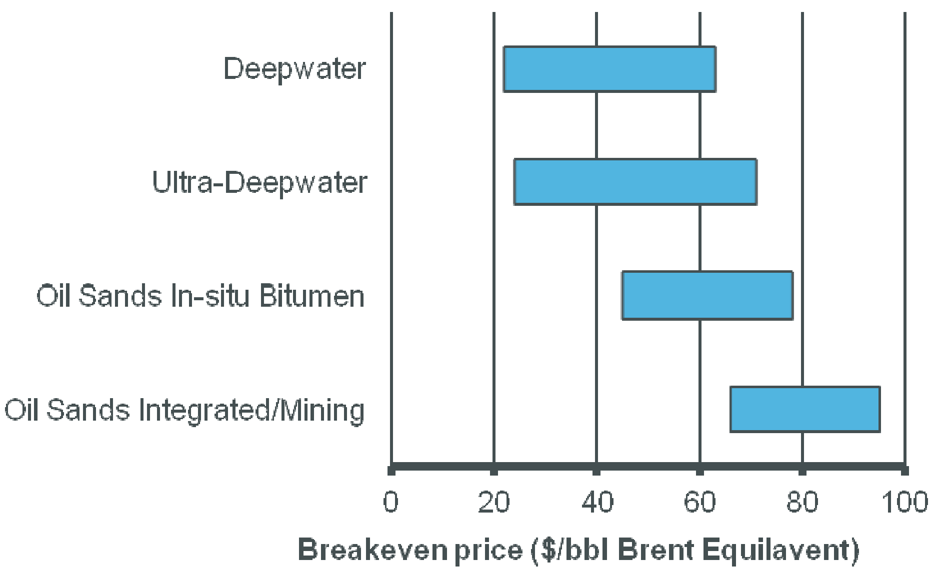
Source: Wood Mackenzie May 2011. IEA November 2011.

Source: Blackrock/IEA November 2011OMR/Estimates range of ultimate spare capacity using bank analysts

What price is the "right" price?

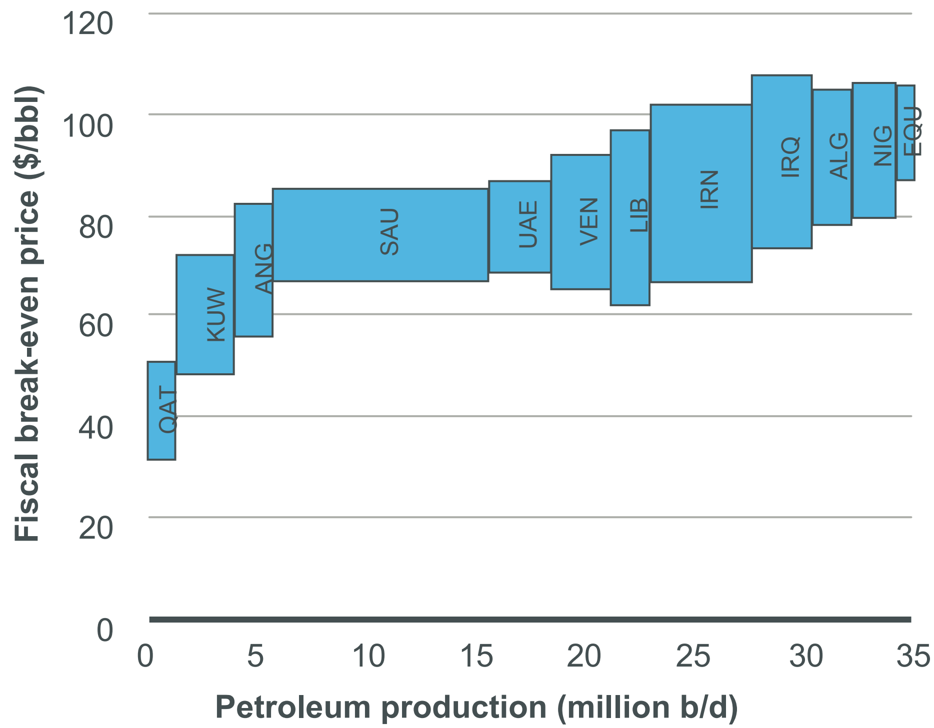
- ~70% of the conventional oil production needed by the end of the decade has yet to be developed or discovered
- Upstream development in 2011 costs twice the level of 2003
- Canadian oil sands forecasted to grow at 6.6% CAGR over next five years. Marginal costs supportive of sustained high oil prices
- In the last 10 years, more than half of all new oil and gas discoveries have been offshore

Breakeven oil prices for probable new developments (IRR 10%)



Source: Wood Mackenzie, February 2011. Oil projects with development plans expected to be approved over the near term. Project economics based on a fully-taxed stand-alone basis using the appropriate fiscal terms for each sector. Internal rate of return of 10% in nominal terms. Potential synergies that can be significant on a corporate basis are excluded. Conversely, the economics are not run on a full-cycle basis and prior signature bonus and exploration/appraisal costs are not included.

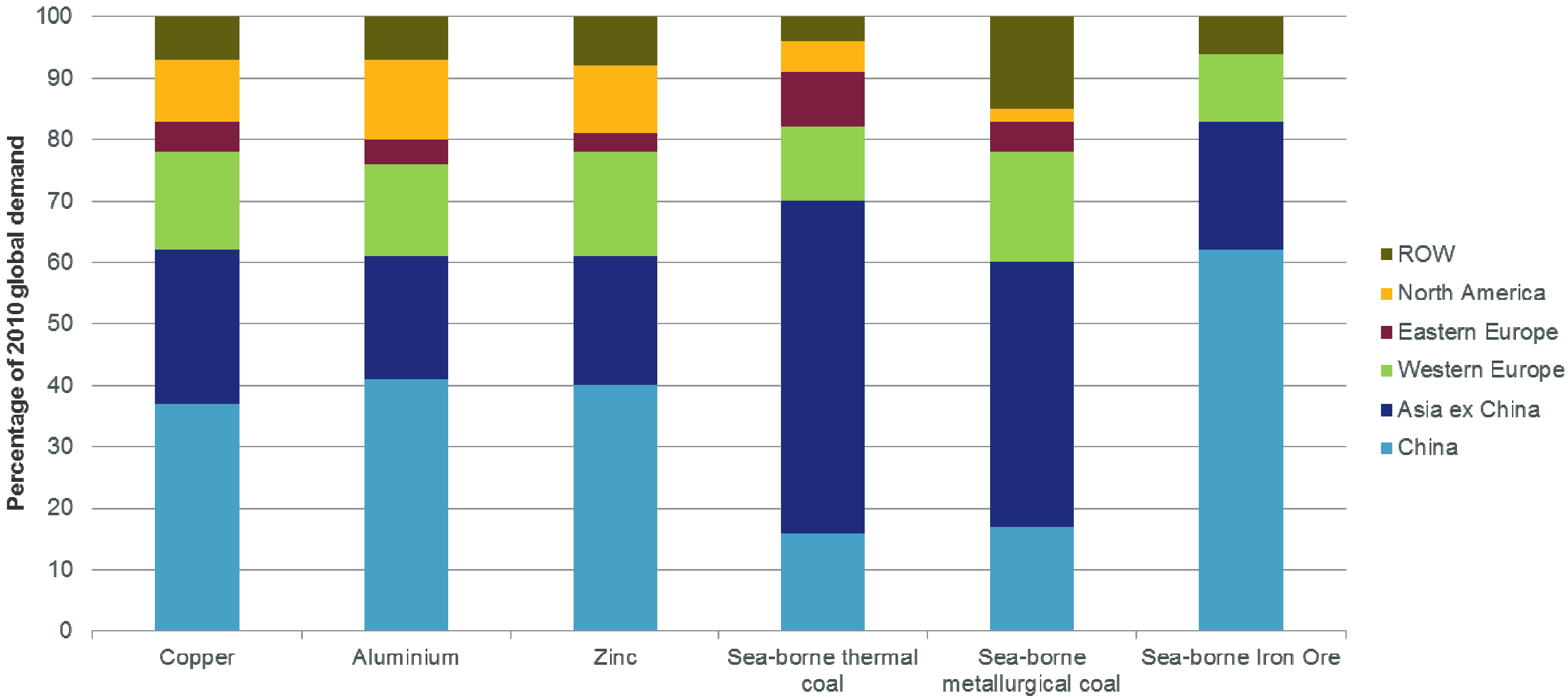
Fiscal oil price breakeven of OPEC nations



Sources: APICORP Research 1Q 2011

Industrial Metals – Asia and China matter

- **China is a major component of demand for all commodities but there is significant variation in demand across industrial commodities**
- **Emerging markets as a whole now make up largest component of global demand for industrial commodities**
- **Outlook for consumption growth in these regions is a key driver of future commodity prices**



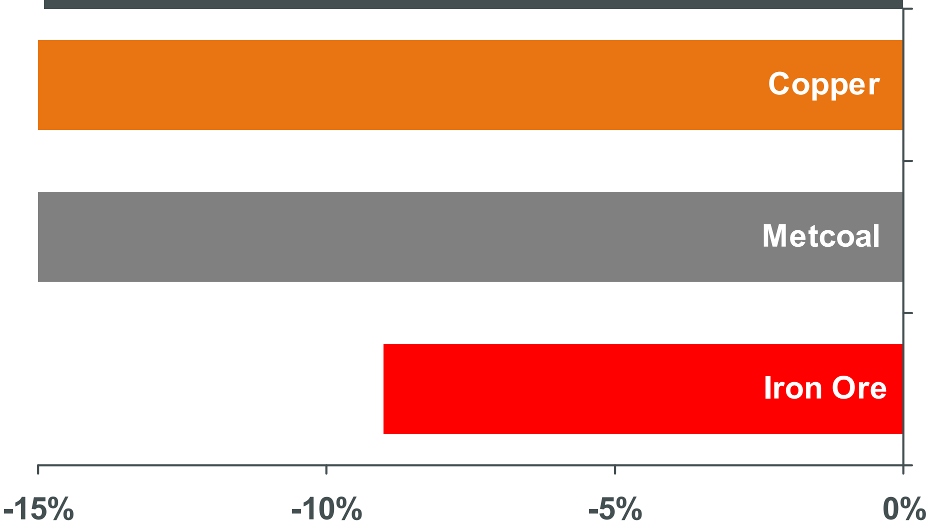
Source: UBS, October 2011

Supply-side dynamics

Supply constrained by:

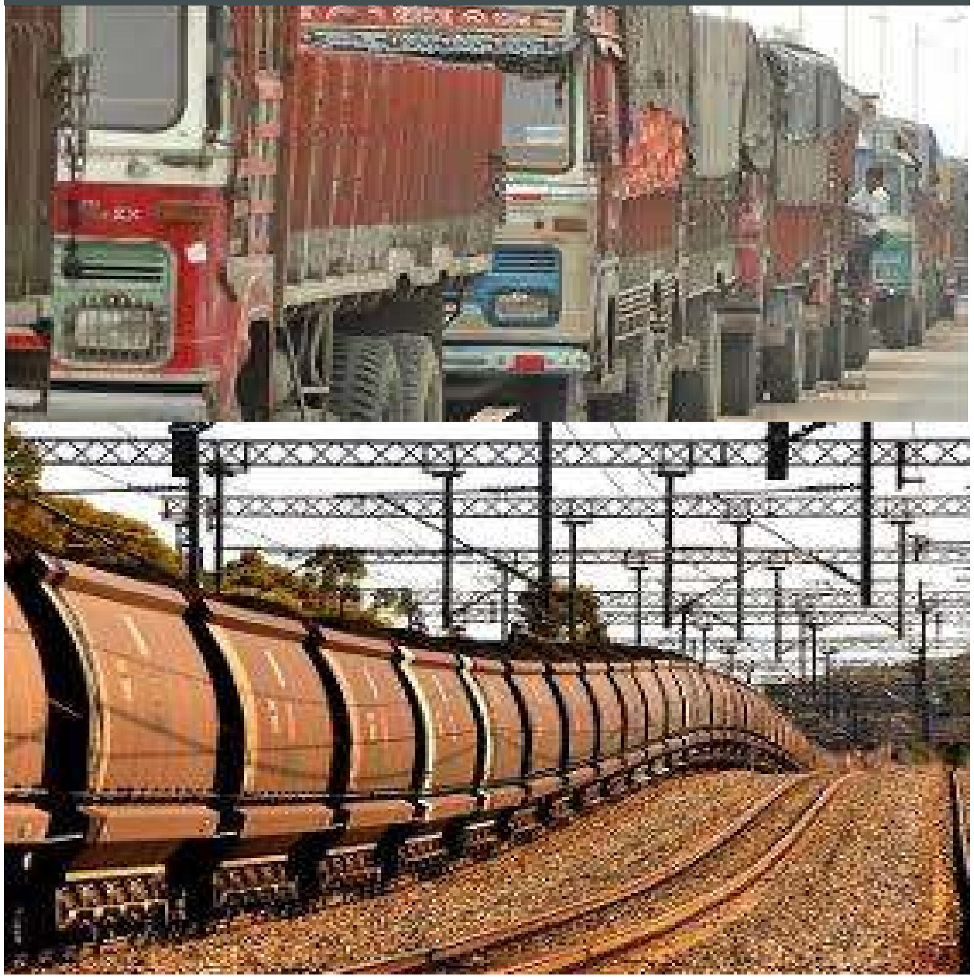
- Average mined grades falling
- Infrastructure challenges
- Discovery rates falling
- Shortage of skilled labour
- Long lead times on equipment
- Geopolitical challenges
- Production shortfalls

Under delivery of production forecasts 2007-2011



Source: Macquarie August 2011.

Challenges to forecast bulk commodity production:
Growth constrained by congestion on roads, rail and at ports



Why gold: Diversification from core asset classes

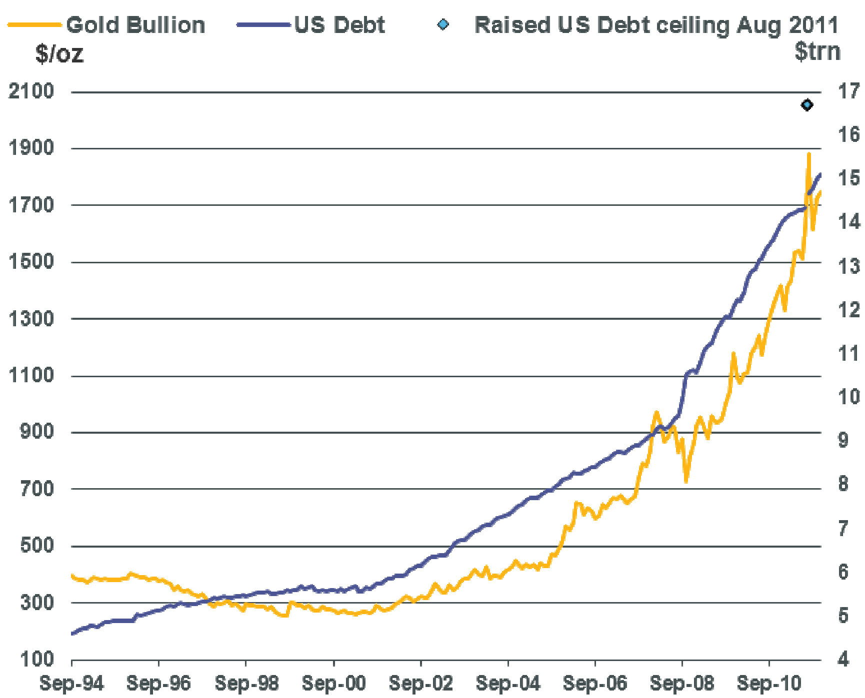
Correlation of gold and other selected commodities to a selection of financial assets – long term view (10 years)					
(10 year dataset)	MSCI World (Equities)	S&P 500	Barclays Global Aggregate (Bonds)	Trade Weighted US$	% Performance (U$)
Gold Bullion	0.09	-0.01	0.44	-0.51	**464%**
BGF World Gold Fund*	0.42	0.29	0.38	-0.56	**580%**
GSCI Commodities Index (Total Return)	0.38	0.31	0.16	-0.37	**69%**
LME Copper spot	0.49	0.41	0.10	-0.32	**434%**
WTI Oil spot	0.29	0.24	0.10	-0.29	**370%**
CBOT Wheat spot	0.23	0.19	0.13	-0.22	**35%**

- Gold has low correlation with almost all financial assets
- Superior diversification from equities and US$ compared to other commodities
- Exposed to spot rather than futures markets, so not impacted by negative roll yields and usually physically backed

Source: DataStream, data as at 2nd January 2011 * BGF World Gold Fund shown here as an example of a gold equity fund

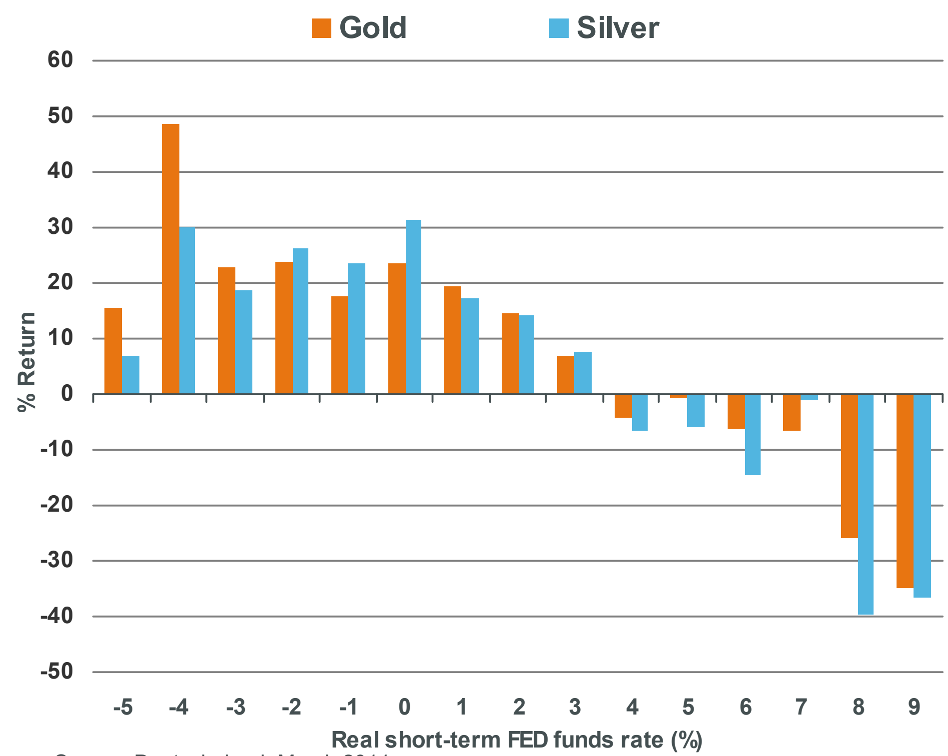
A real return from a 'risk free' asset

Gold a beneficiary of growing US debt



Source: Datastream 30th November 2011

Returns of gold and silver in a real interest rate environment Year-on-year returns since 1970



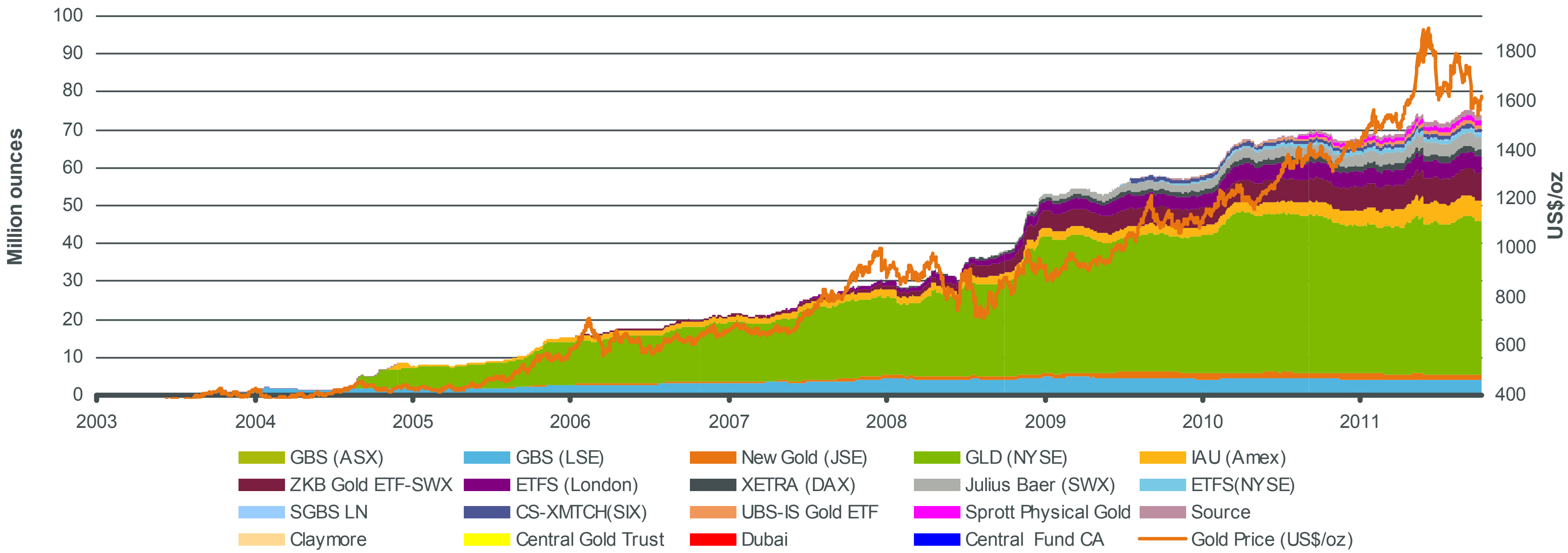
Source: Deutschebank March 2011

- Concern over the higher risk associated with a rising US debt burden
- Gold has benefited as investors have sought out 'risk free' assets with a *real* return

Investment Demand – Key Drivers

Portfolio Diversifier	Inflationary Concerns	Currency Volatility / Dollar Weakness
Low correlation to fixed income and equities	Impact of quantitative easing – risk of inflationary scenario has increased	What will be the next reserve currency?

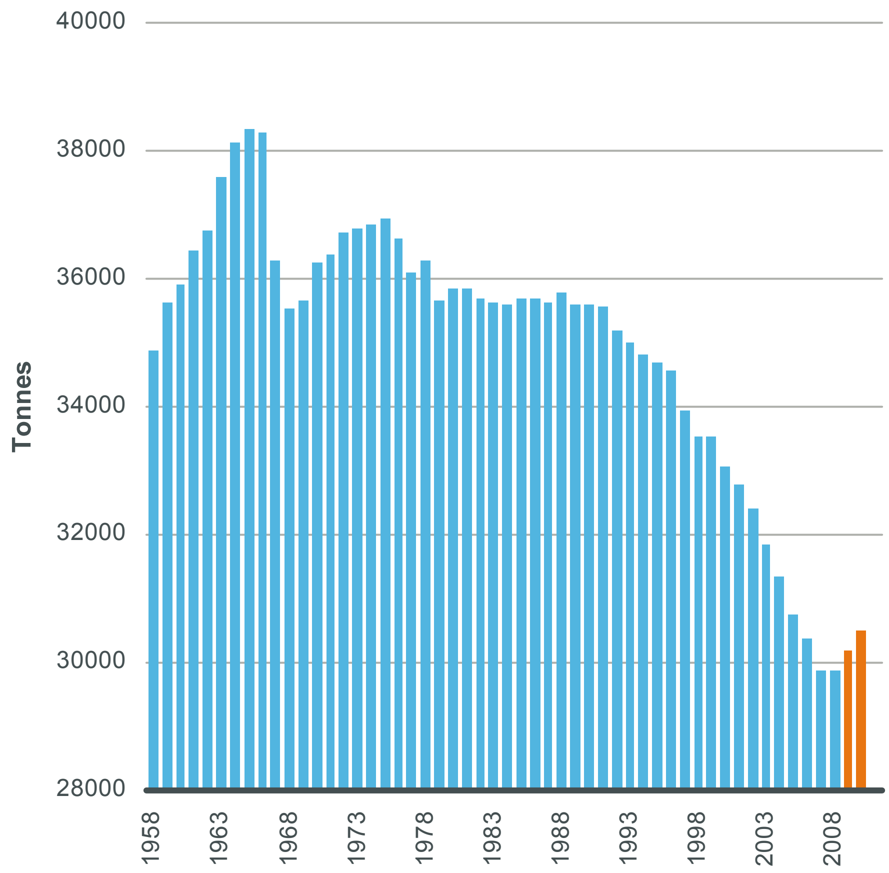
Amount of gold backed by ETFs



Source: UBS. Data as at 5 January 2012

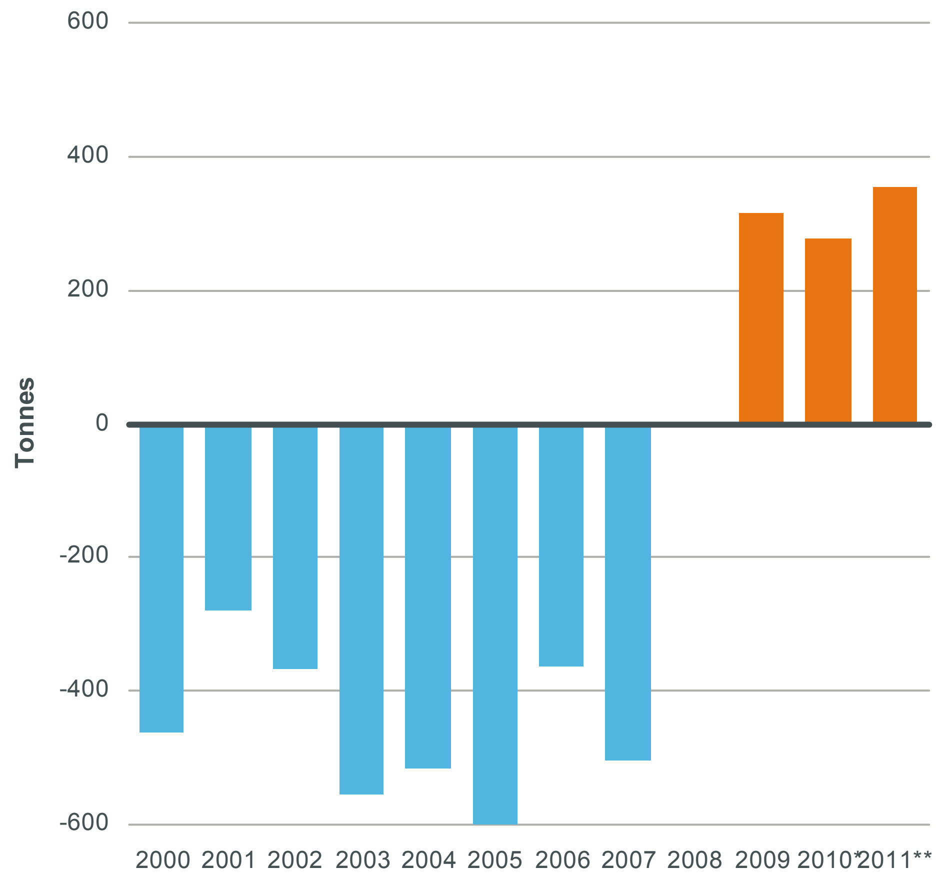
Central bank gold holdings – Strategic shift in attitude

Central Bank Gold Holdings (1958-2010)



Source: Deutschebank, World Gold Council, December 2010

Change in official sector gold holdings 2000-2010



Source: World Gold Council, December 2010. *Estimate ** Estimate YTD to end November

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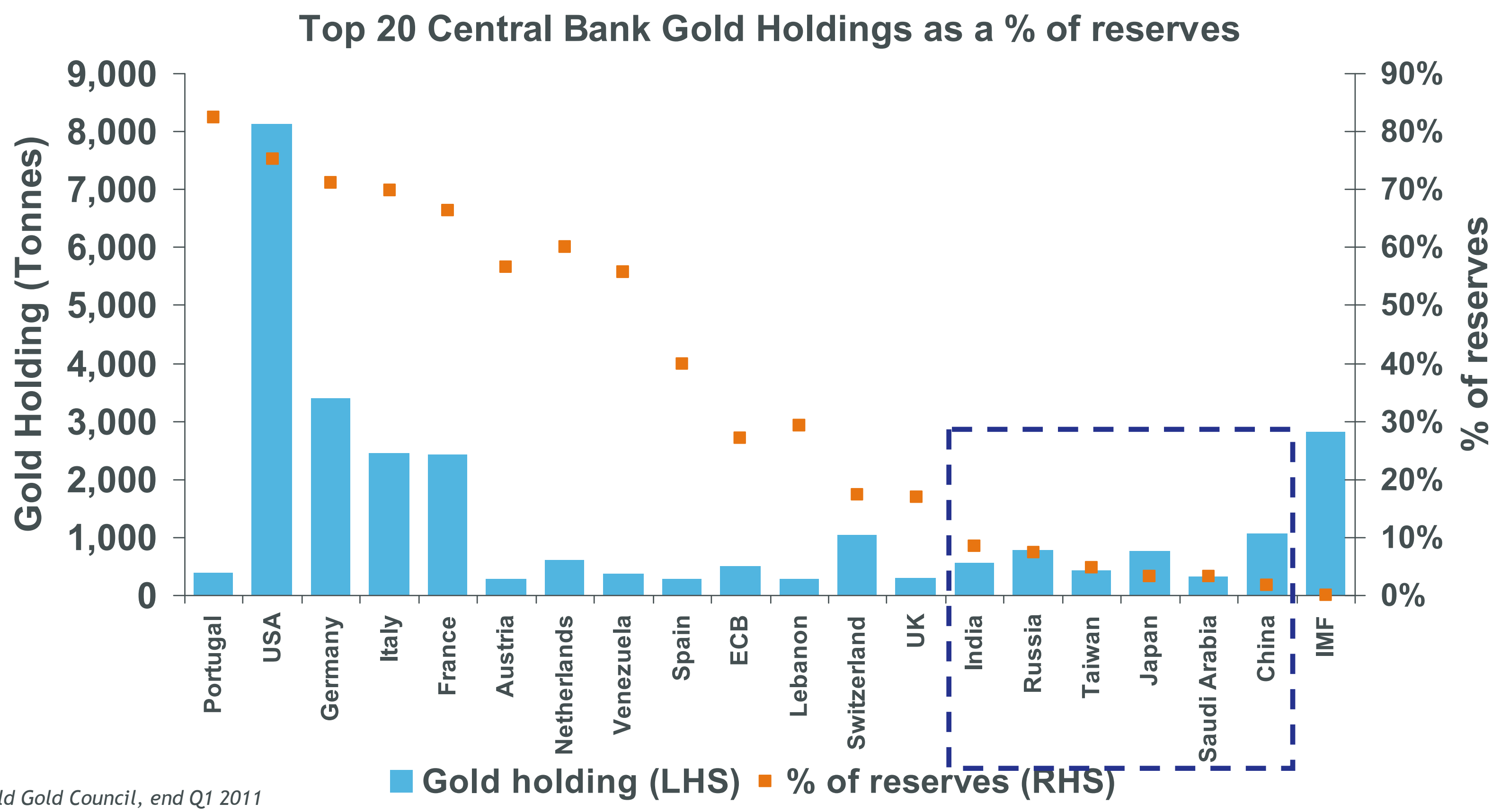
Central bank gold holdings

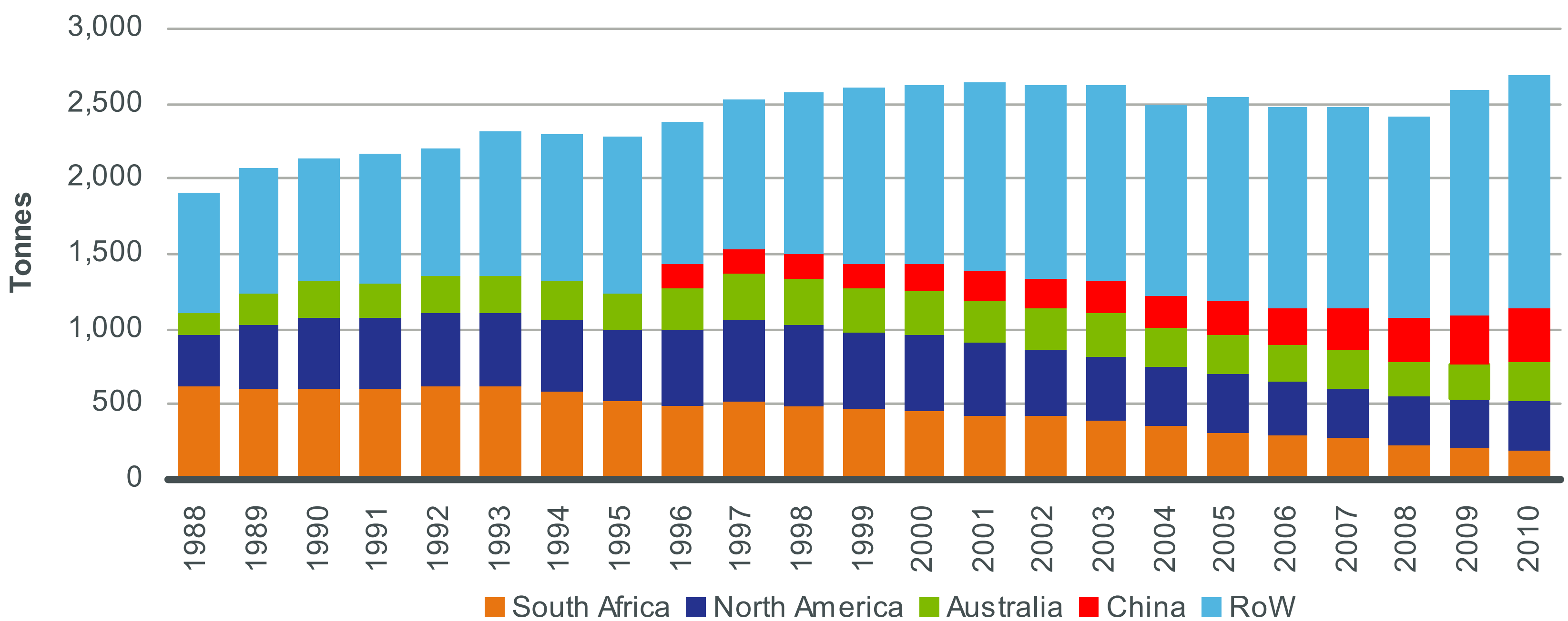


Source: World Gold Council, end Q1 2011

- Average Central Bank gold holding as a percentage of foreign reserves ~ 10%
- Emerging markets - the growth engines of the global economy - holding significantly lower than average
- Mexico increases gold reserves to 100t, buying over 90t of gold
- Bank of Korea buys 25t of gold in June 2011

A stagnant industry

World Gold Mine Production, 1988-2010

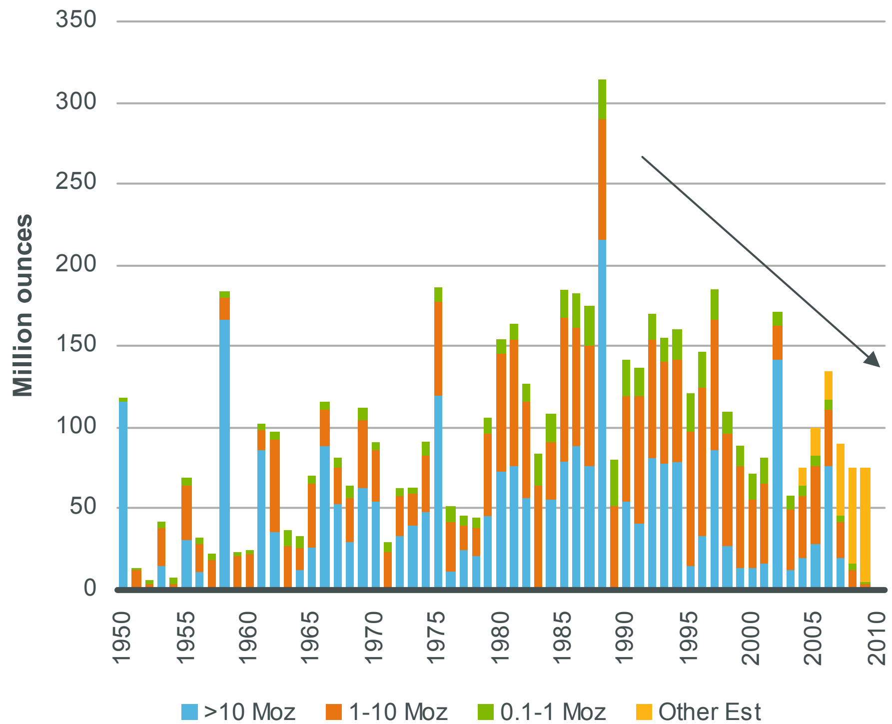


Source: GFMS 2011
Prior to 1996, Chinese production is included in Rest of the World

- Production growth of 3.8% in 2010 vs. 2009, this compares to 7.5% growth in in 2009
- Total mine production only now above previous peak in 2001, despite a gold price rise of over 350%
- Number of world's largest gold mines are approaching the end of their lives and grades across the industry are falling
- We estimate total cost of production (exploration, development and mining) to be in excess of US$950/oz *before* returns to shareholders

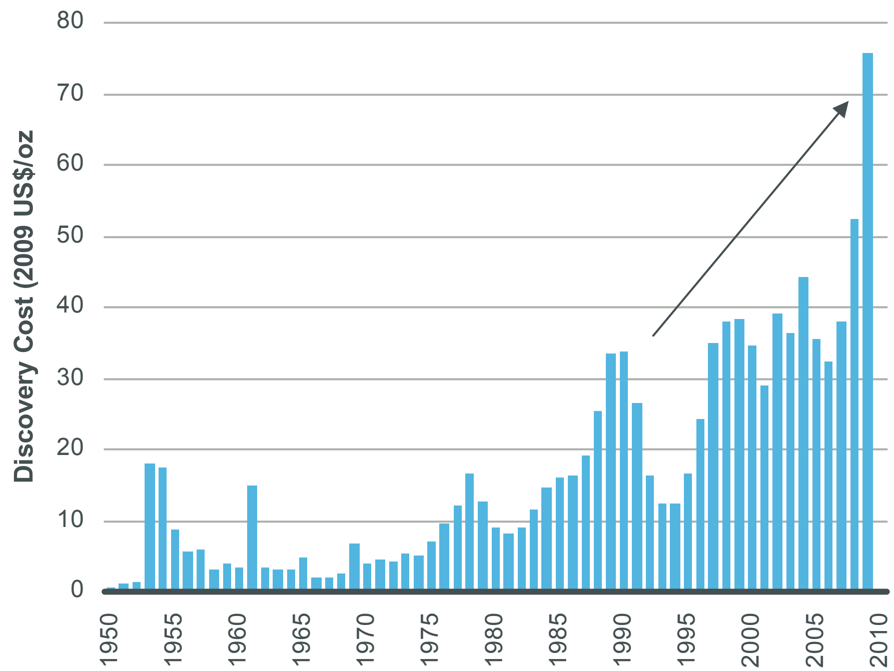
Mine supply – Future supply challenged

World Discovery Trends



Source: Gold Fields, August 2010

3-Year Rolling Average Discover Cost



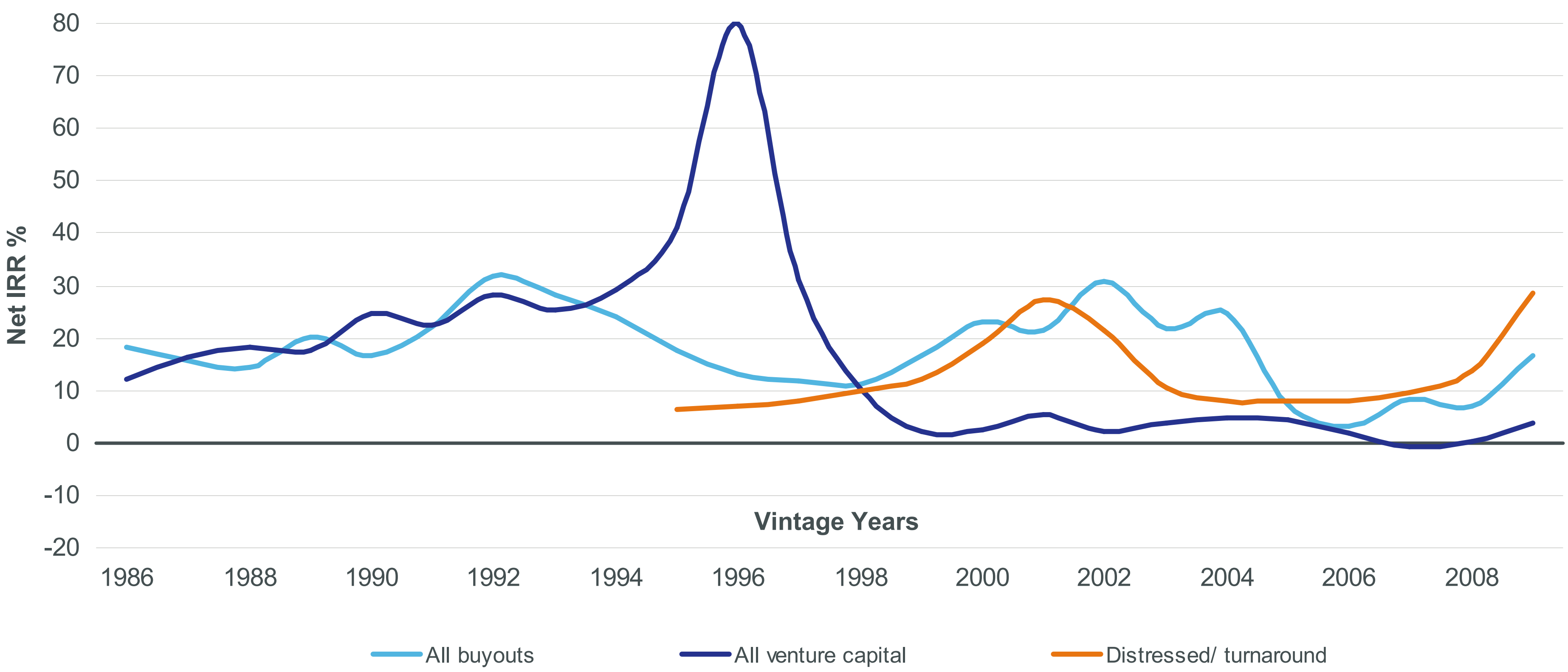
Source: Gold Fields, August 2010

Private Equity Outlook

- Returns will be lower than in the past
  - Less leverage
  - Unchanged transaction valuations
- Valuations will be more closely linked to public markets
  - Mark to market rules (BVCA, FASB 157, 159)
- Greater emphasis therefore on “operational model” and specialist knowledge
  - Building business away from public markets
- And income may become crucial
  - Distributions from business not just disposals

Diversification by vintage year and type is key to successful Private Equity investing

Top quartile PE performance by type and vintage year as of 31 December 2010

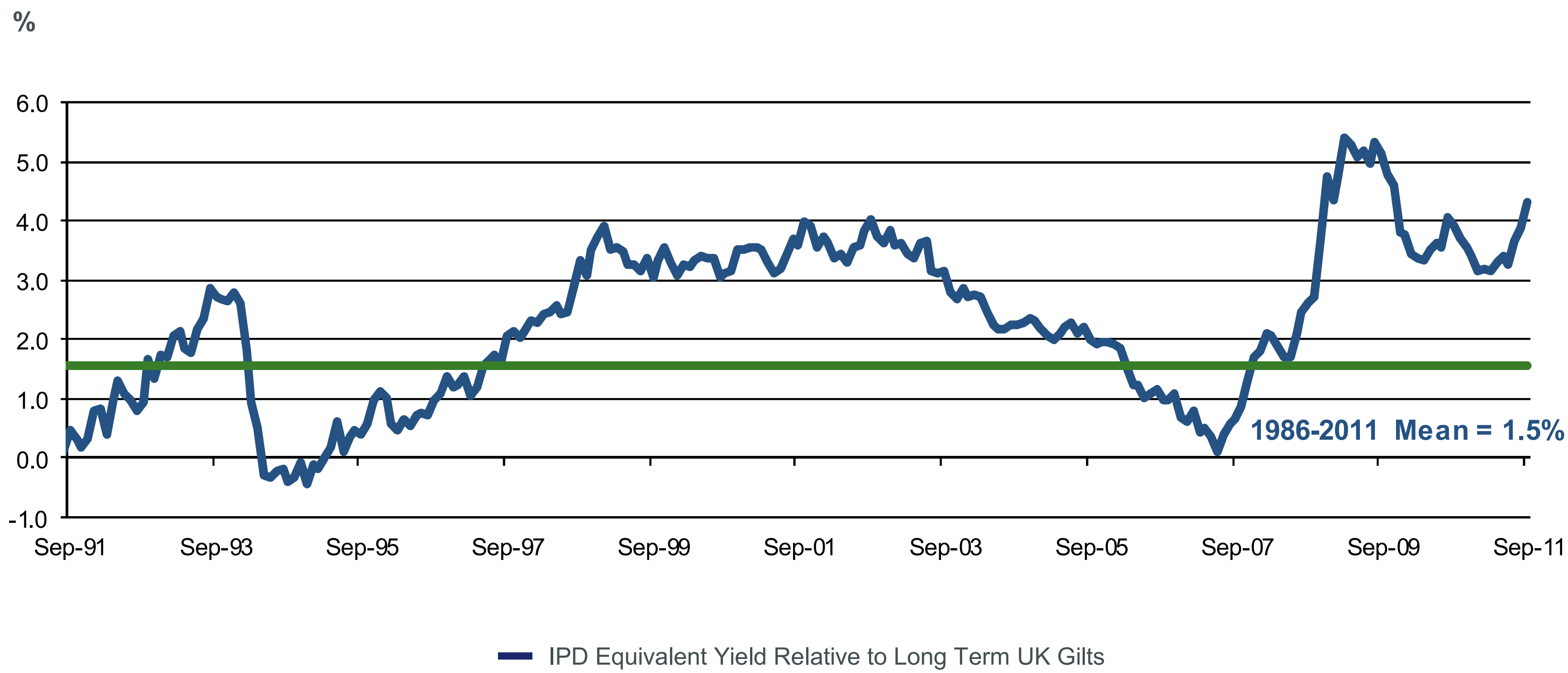


Reflects Venture Economics VentureXpert cumulative performance since inception through 31 December 2010 for derived on 16 May 2011.

Hedge Fund Outlook

- Be sure your fund actually diversifies!
- High correlations have made this difficult in many areas
- Increased divergence – our central case – aids returns
- Distressed debt, work out funds and niche investments offer interesting prospects
- Allocations likely to increase because of flexibility of investment approaches

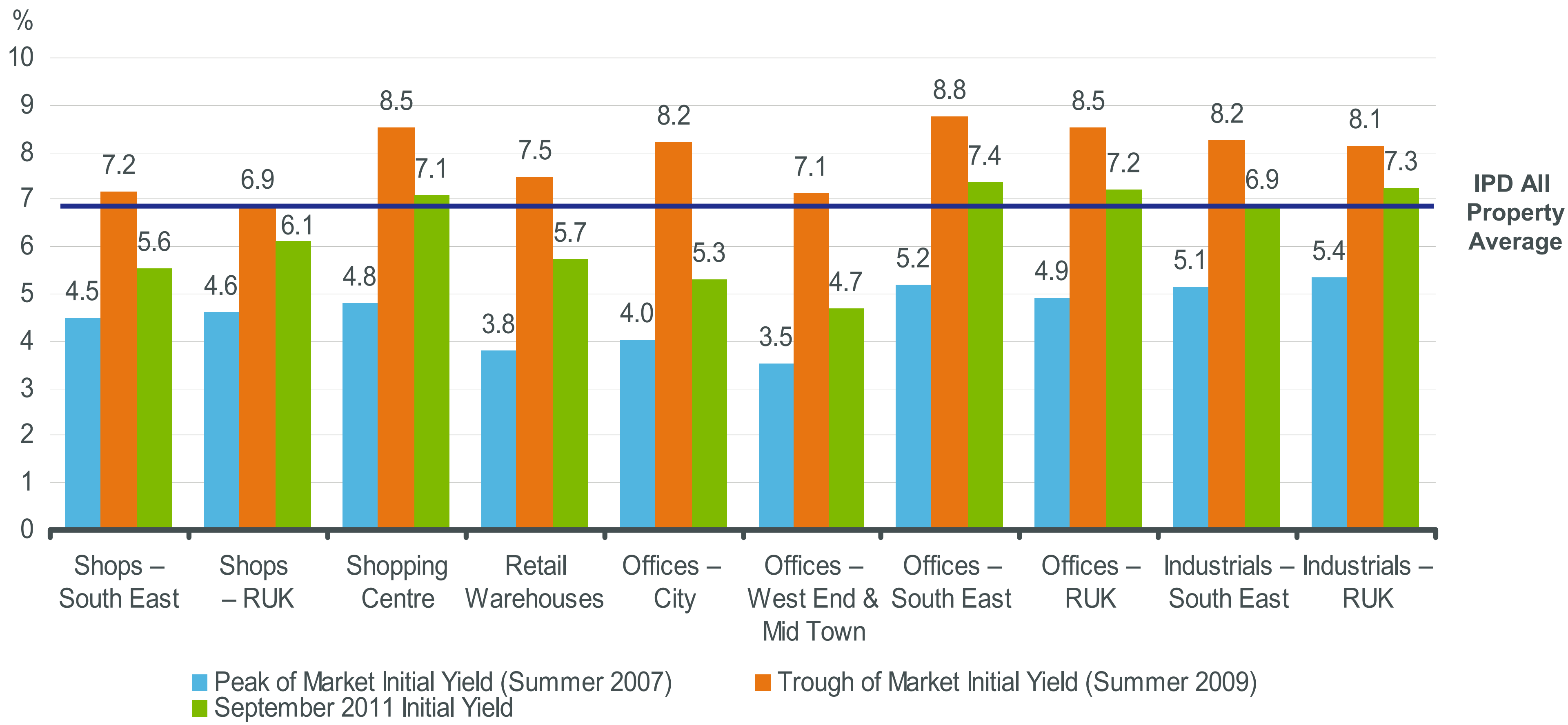
Property offers a significant relative yield advantage over long term UK gilts



Attractive income characteristics provided by commercial real estate sector

Source: Investment Property Databank.

Sub sector initial yields – peak to present



Average since January 1987.
Source: IPD MIPS as at 30 August 2011.

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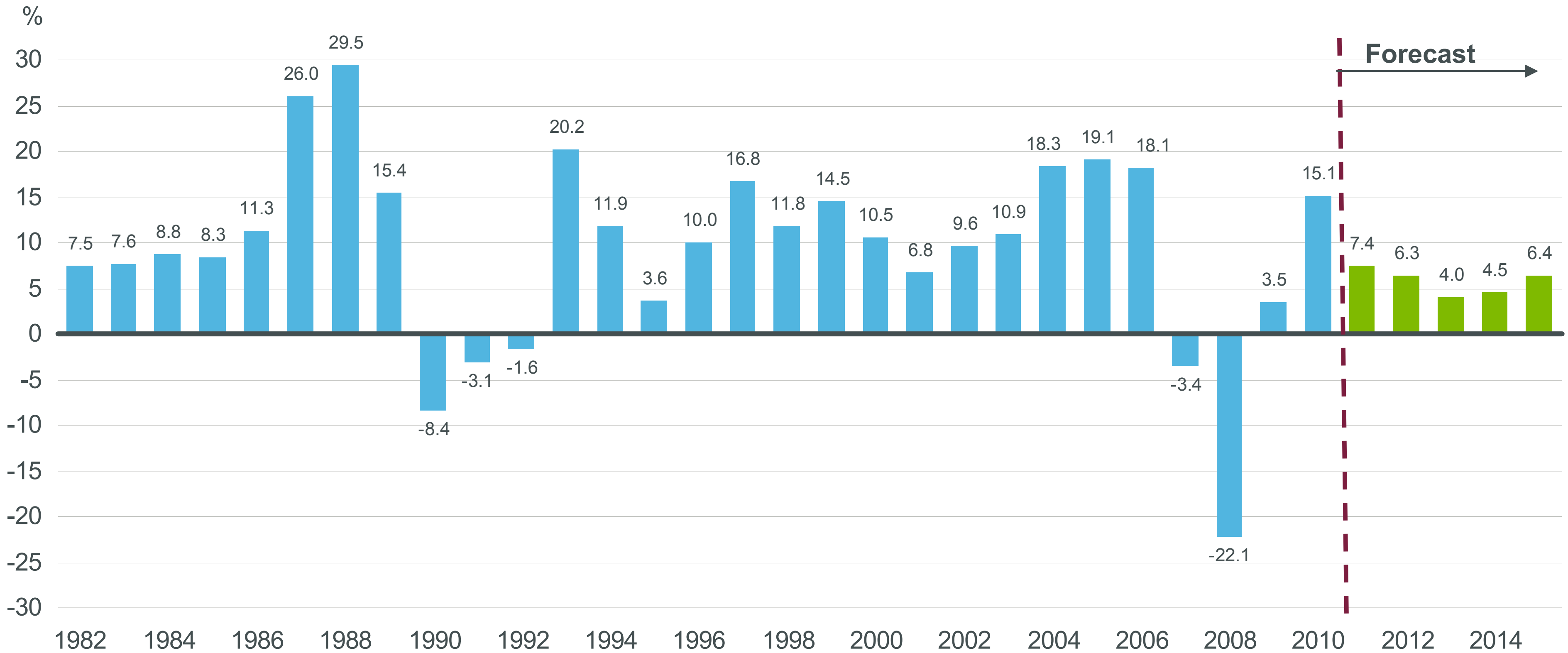
BlackRock real estate – UK commercial real estate total return forecast



BlackRock 2011 Forecast, IPD Annual Index,
Source: BlackRock Internal as at 30 September 2011.

UK direct real estate – current themes

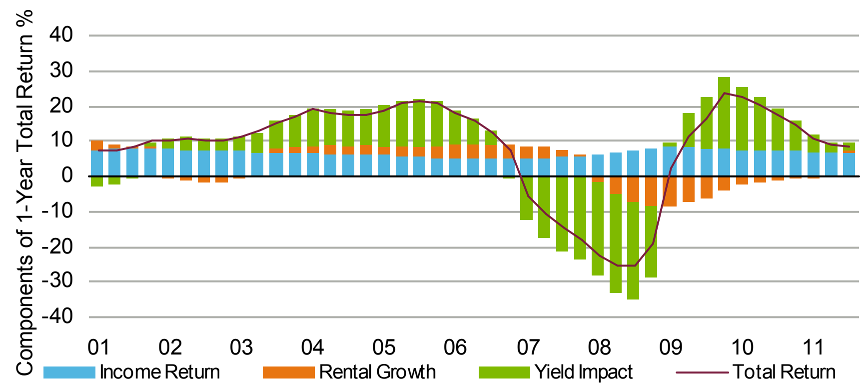
Annual total returns moderated to 8.7% in September
•Capital values have risen 18% since July 2009, driven entirely by capital inflows
•However, yield impact has largely run its course
•Estimated rental value growth turned marginally positive in July, but remains basically flat

Polarisation continues
- Prime vs. secondary; driven by investment demand/ flight to quality
- London/ South East vs. Rest of UK; driven by recovering property fundamentals
- Secondary assets and Rest of UK markets are expected to remain under pressure due to Government austerity, elevated unemployment, and banks releasing stock to the market

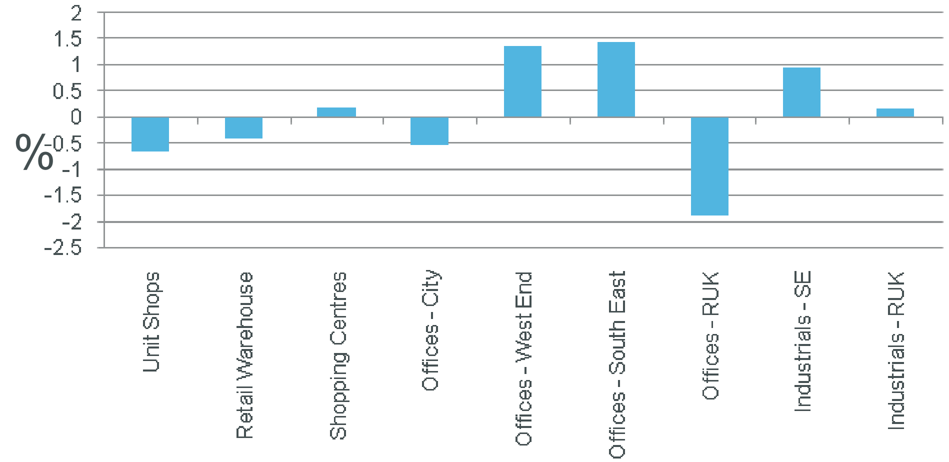
Outlook more uncertain
- Elevated levels of volatility are expected
- Lack of direction as forecast gap between sectors is narrowing
- London, South East and regionally-dominant Retail assets expected to outperform in early years

UK property still positioned well in slow growth environment
- Construction levels across all sectors are near historical lows, suggesting that not much demand is needed to reduce vacancy levels and support rent growth
- Property offers a significant relative yield advantage over long-term Gilts; a 5.5% to 8.5% income return is attractive from a multi-asset perspective
- Estimated rental values have risen just 0.2% from their trough, with only Central London posting real rent growth
- Despite recent recovery, average valuations are still 34% below their recent peak, suggesting more moderate downside risks to values than in other asset classes
- Investor focus on secure income will likely benefit prime property, as London is seen as a safe haven for international property investors
- Having said that, slower economic growth is obviously a negative for property
- We expect a muted recovery in capital values with income yields and operations driving performance

IPD Property Index Components of Return – September 2011



5 yr Forecast Relative Returns (BLK Autumn 2011)



Source: BlackRock, IPD, PMA

Conclusion

Scenario	Divergence (40-50%)	Nemesis (20-25%)	Stagnation (15-25%)	Inflation (5-10%)	Growth (0-5%)
Ingredients	A true decoupling: Emerging economies keep outperforming, while the United States and Japan putt on. Europe has a shallow recession but a recovery at snail's pace. China's economy re-accelerates. Elections in key countries could upset the cart.	Global recession, credit crunch, social upheaval and steep losses across asset classes around the world.	Sluggish global economic growth and high unemployment.	Inflation around the world effectively cuts the developed world's debt load.	Sustainable global growth just above the long-term trend.
Triggers	Policy moves halt -- but don't solve -- the euro debt crisis.	The most likely trigger is that the Euro debt crisis spins out of control, leading to a partial breakup of the union and global banks' dumping risk assets. Other include: An Israeli attack on Iran's nuclear facilities a China growth shock or a buyers strike in the U.S. Treasury market.	The current state of play. A tug of war between seemingly ineffective policy makers and skeptical financial markets.	The world's central bankers start running their printing presses day and night	Developed market policy makers don't just arrest the debt crisis but provide a credible road map for long term solutions.
Probability	40-50%	20-25%	15-25% We believe the world is at an inflection point and see the current status quo as untenable.	0-10% Inflation is unlikely to perk up, especially in the developed world.	0-5% Dream on.
Investment strategy	Alternatives benefit from more dispersal in risk premiums; hedgefunds, commodities, private equity win	Devastating for most assets. Cash, U.S., German and Japanese government bonds would be kings. Gold also may work. Overweight the U.S. dollar, yen and pound over the euro and emerging currencies. Hedge funds, private equity and infrastructure could offer protection if they can stomach short-term funding crunches and regulatory measures such as short selling bans.	Asset move in lock step with big price swings from one day to the next as investors buy into the latest policy moves to halt the debt crisis or poke holes in them. Banks shedding risky assets keep a lid on permanent gains in risk assets. High correlation between asset classes. Income based strategies work	Income-focused investors switch to risk assets. Alternatives such as real estate, infrastructure and private equity should do well.	Most markets rise, especially risk assets such as commodities, high yield bonds, depressed European sovereigns and financials.

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