



## FLASH REPORT

### *Global Resources – Recent Market Volatility*

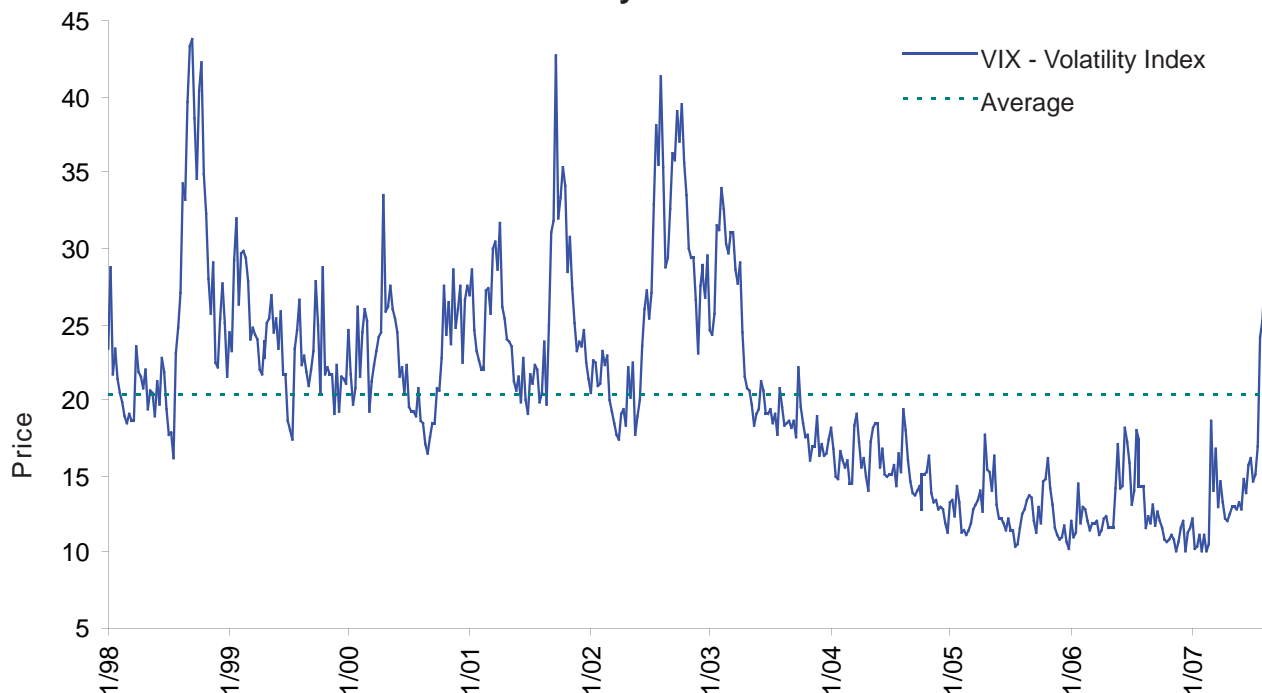
Volatility has increased significantly across global equity, debt and currency markets in reaction to fear and a lack of liquidity in the credit markets. The CBOE Volatility Index, VIX (the benchmark for stock market volatility) has spiked considerably in the past few weeks, as seen in Chart 1. Note that over the past few years, volatility has been much lower than average. While the current spike in volatility may not be sustained, investors should expect more volatility going forward than has been experienced in the past few years.

Given the current level of volatility, we are not surprised by the short-term weakness in the Portfolio. Positions in all major sectors have moved more or less in tandem, though there are individual companies doing better or worse than

their peers. However, this kind of “lockstep” market action appears to be a market phenomenon, not something that is representative of the underlying fundamentals.

In fact, we do not see major changes in the fundamentals of the Portfolio on either an individual stock basis or across the major sectors. The biggest risk is that there is a significant global economic slowdown, possibly including a recession in the United States and other developed markets. The most economically sensitive portion of the Portfolio is the base metals sector, such as copper and iron ore. We have been relatively underinvested in these industries for most of the year, and further reduced copper exposure in July and iron ore exposure in early August.

**Chart 1: VIX-Volatility Index 1/2/98 - 8/10/07**



Source: Bloomberg

The Portfolio is 45% invested in direct energy and energy related companies. Overall energy consumption is relatively insulated from changes in the economy. Chart 2 illustrates global oil production compared to changes in global GDP. While there is some connection between the two, it is significantly lower than most would imagine. Energy production is high and is expected to go higher under most circumstances. Even more important for our Portfolio, we do not believe that the companies in which we invest will be impacted by market volatility. The search for oil and natural gas, along with the growing need for better infrastructure that facilitates these industries, should remain vibrant. In addition, the industry is ripe for consolidation, as evidenced by the recent Transocean and Global Santa Fe merger.

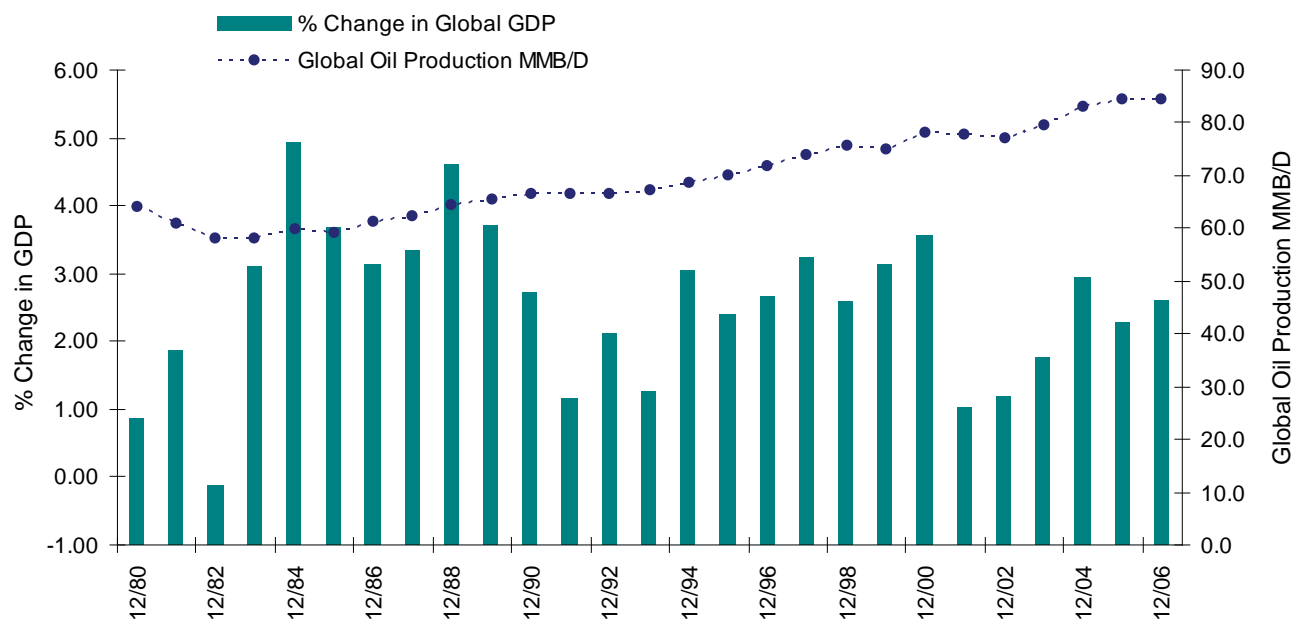
Precious metals and related companies appear attractive at this point. They have been

underperforming the general bull market for commodity stocks this year (the last few weeks notwithstanding) and should be strong performers going forward.

Agriculture related names remain a significant theme for the Portfolio, continuing an allocation shift that began last quarter. As expected, these stocks have performed better than most commodity sectors during the recent market pullback, as they are the commodity equities furthest removed from overall economic activity.

The Federal Reserve reduced one of its two primary interest rates last Friday, August 17, and market reaction has thus far been positive. However, we believe that additional volatility is possible, given that over the past few years it has been artificially low. We believe the Portfolio is well positioned for a return to a more normal market environment. ♦

**Chart 2: Global Oil Production Compared to Global GDP 1980-2006**



Source: Factset