Baldwin Investment Management, LLC

THE BRIC[1] HOUSE

As children most of us were told the story of the three little pigs who built for themselves three very different houses to protect them from the big, bad wolf. There was the house built of straw which fell quickly after the wolf huffed and puffed and blew it down. There was the house built of sticks which suffered the same fate. Then there was the house built of bricks – which no matter how hard the wolf blew, he could not blow the house down and the three little pigs were saved from the big, bad wolf. Okay, you might be saying thanks for the nursery story remembrance but how does it relate to our economic view of the world?

The worry is that our American economic “house” is pretty wobbly and may not be able to withstand any malevolent “huffing and puffing”. Every day new stories are in the press and over the airwaves about sub-prime mortgage write downs and banks requiring additional capital. It is certainly clear that many banks have serious financial problems. At the same time, oil company profits are huge, but they certainly have not escaped the media since their profits are considered to be made by crushing the American consumer at the gas pump causing heated hearings before Congressional subcommittees looking for solutions to take back to their voters during the summer recess. In spite of the negative “spin” here in our domestic coverage, there is some balance in the world – many U.S firms are prospering. The U.S. companies which are finding success are those which are helping build the BRIC house.

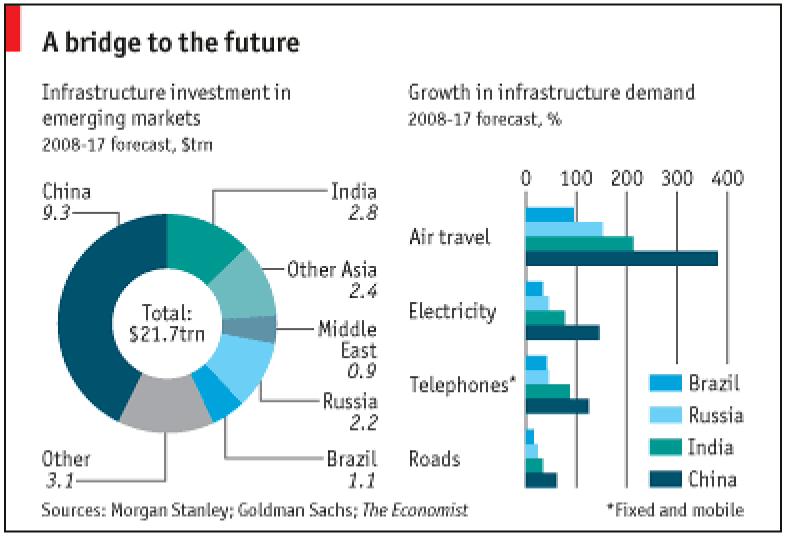
We have talked in the past about the international economy. Portfolios with exposure to “large cap” internationally oriented companies should fare well because of the economic strength outside of the U.S. as we forecasted. So far, this has been the case. While firms with largely a U.S. focus have suffered earnings slowdown like homebuilders, some consumer products companies those with varying degrees of overseas sales have prospered because of their foreign exposure (think IBM, Cisco, ExxonMobil, Jacobs Engineering, Schlumberger, etc.). Why?

[1] BRIC = Brazil, Russia, India and China

***"The biggest investment boom in history is under way. Over half of the world's infrastructure investment is now taking place in emerging economies*……….”[2]

It is estimated that approximately $1.2 trillion is likely to be spent on roads, ports, railways, telecommunications, electricity and a host of other projects just this year alone. This equates roughly to 6% of the combined emerging countries GDPs and is twice the infrastructure investment being made in so-called developed countries. Mainly because of this, fixed investment in these emerging nations should increase by a gargantuan 16% in during 2008 versus a flat performance in the developed world. Such investment will undoubtedly help world growth this year in spite of an anticipated slow U.S. performance – and will most likely continue for years to come.

For the next ten years, it is estimated by Morgan Stanley that emerging countries will spend $22 trillion on infrastructure. China alone is expected to account for 43% of that total and is already spending 12% of its GDP on infrastructure. In fact, China has already spent more in the past five years than the country invested in the entire 20th century. Brazil inaugurated a four year plan in 2007 to spend $300 billion to modernize its ports, roads and power plants. India is looking at spending $500 billion on infrastructure. Russia and the Gulf states (Saudi Arabia, Kuwait, Abu Dhabi, etc.) are pouring cash from their oil wells into many projects in their countries.



[2] Economist magazine – June 6, 2008

The investment in infrastructure usually leads to big economic gains. New roads or railways not only immediately boost job creation and output, but also spur future growth. Traditionally nations with the lowest transport costs tend to be more open to foreign trade and enjoy faster growth. Money spent to insure good sanitation and clean water will raise the quality of human capital and labor productivity.

"The World Bank estimates that a 1% increase in a country's infrastructure stock is associated with a 1% increase in the level of GDP." [3]

There is also a virtuous circle. Infrastructure investment is not only a cause of economic growth – it is also a result of economic growth. As people prosper and more live in towns, the demand for electricity, sanitation, transport and housing rises – creating a mutually reinforcing relationship, leading to more investment and more growth. It is projected by Goldman Sachs that electricity capacity may have to leap 140% in China and 80% in India in the next 10 years. The number of air passengers could surge 350% in China and 200% in India over the next decade.

Can the emerging economies afford all this anticipated expenditure? Generally, the balance sheets of most emerging nations are in quite good shape with balanced budgets and large surpluses from selling a vast array of commodities, such as iron ore, oil, natural gas, coal, nickel, etc., to the developed world and increasingly to themselves in order to satisfy growing internal demand. There will also be a need for private capital – the opportunity for investors around the world, including those U.S. companies that will continue to focus on this unique opportunity.

The American economy will not be the "locomotive" for the world economy in 2008 and perhaps for 2009. Growth will come from elsewhere on the globe. It will be key to the health of a portfolio that it have numerous companies represented that are exposed to the world wide spend on infrastructure today and for many years to come.

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[3] World Bank – February 2008

PREDICTIONS FOR 2008	COMMENTS
1. Late in 2008, the Fed will begin to raise interest rates	Still believe
2. The dollar will appreciate in value vs. the Euro and Yen	Off to a “rough start” –but still believe
3. Housing will stabilize in the second half of 2008	Sales from existing homes +2% last month as prices decline
4. Financial stocks will outperform in 2008	Still believe, although first half has been “scary”
5. There will be Middle East progress in Palestine and in Iraq	The “surge” has helped in Iraq & talks in Palestine continue SLOWLY
6. Oil prices will come down	Hedge funds may be sellers –more calls for a “bubble” to pop & for Congress to get involved
7. Inflation will be a little worrisome in the first half of 2008; but not in the second	So far
8. Hillary Clinton will not be elected President; and Michael Bloomberg will run if the Republican field is "muddled" coming out of South Carolina	Hillary is out – the “foregone conclusion” is gone
9. International equity markets will continue to distance themselves from U.S. markets	Has not happened yet – but still believe
10. The U.S. stock market will do better in 2008 than it did in 2007	Still believe, but first six months has been ugly

A FINAL THOUGHT

A FINAL, FINAL THOUGHT

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The reported numbers enclosed are derived from sources believed to be reliable. However, we cannot guarantee their accuracy. Past performance does not guarantee future results.

A list of our Proxy voting procedures is available upon request.

A current copy of our ADV Part II is available upon request or at www.baldwinim.com/disclosure.htm

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