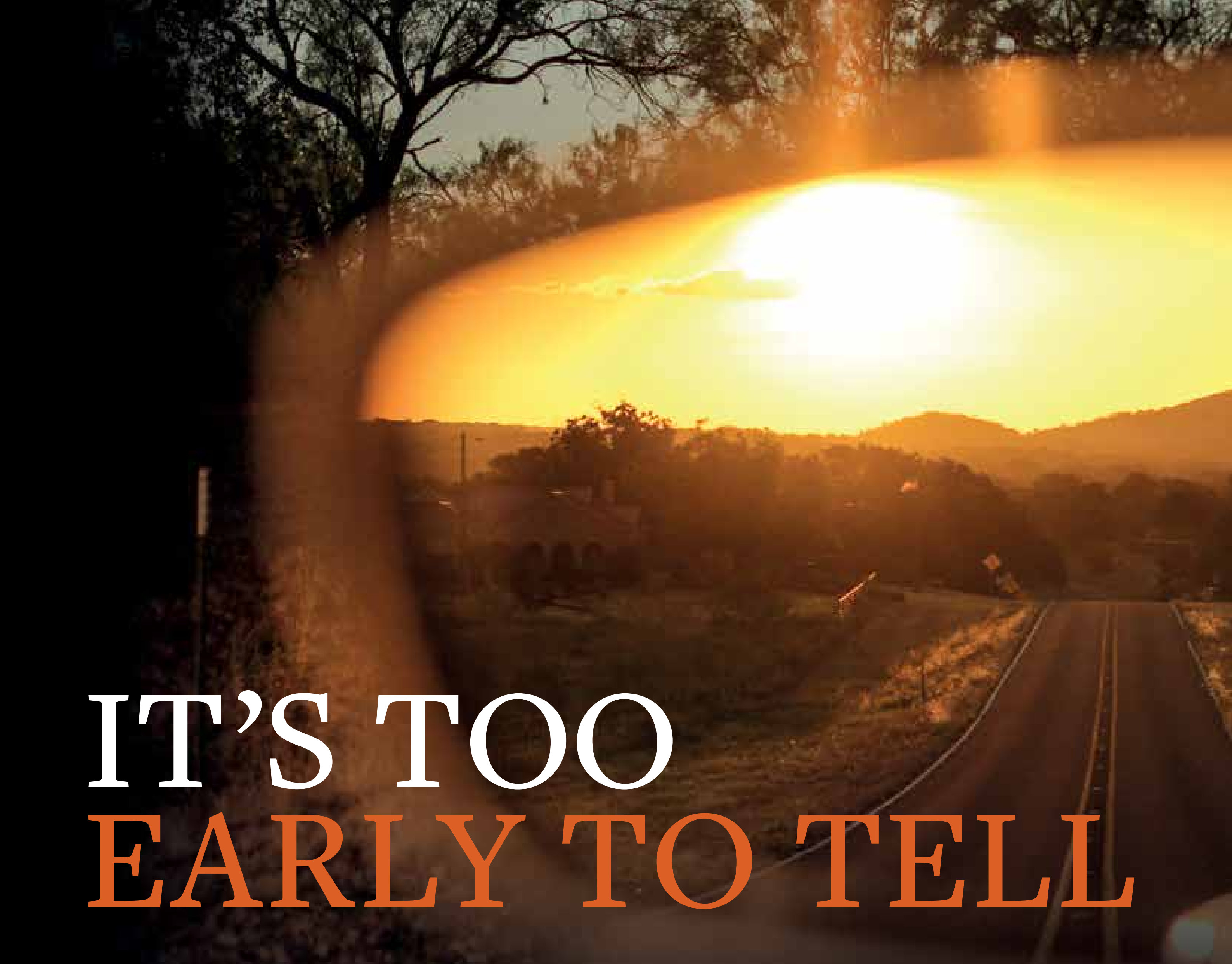

IT'S TOO EARLY TO TELL

In a conversation with US President Richard Nixon in 1972, the Chinese Prime Minister, Zhou Enlai, reputedly quipped that it was 'too early to tell' when asked about the impact of the French Revolution on Western civilisation. After listening to the translated reply, President Nixon was delighted by this profound example of far-sighted wisdom with reference, he presumed, to the seismic events of 1789. Disappointingly, witnesses to the conversation have subsequently insisted that the Prime Minister was, in fact, referring to the Paris student riots of 1968. However, the misunderstanding was allowed to stand, possibly because it suited all concerned.

Whatever actually happened in the above exchange, the episode does suggest two things that have relevance for today. Firstly, it is reasonable to expect major events in human history to cause reverberations for surprisingly long periods of time and, secondly, reality can be distorted to suit the interests of those involved.

The financial world has recently marked the tenth anniversary of the defining moment of the financial crisis of 2008/9, namely the collapse of Lehman Brothers. The occasion prompted more than a dollop of self-satisfied backslapping from the economics profession, politicians and officials about the inspired actions taken to avert a meltdown. The various measures employed were presented as calmly rationalised options that were deployed with known outcomes. The truth, of course, was far less edifying. In reality, increasingly panicked measures were thrown like mud at a wall in the hope that one of them would stick. Major industries were bailed out, toxic asset purchases arranged, sales taxes cut, accounting rules suspended, interest rates slashed to near zero and 'quantitative easing' (a clever way of printing money) was introduced. Eventually the rot was stopped.

Of course, something had to be done. But it is worth bearing in mind that some of the policies employed would have been considered downright heretical by mainstream economists even a

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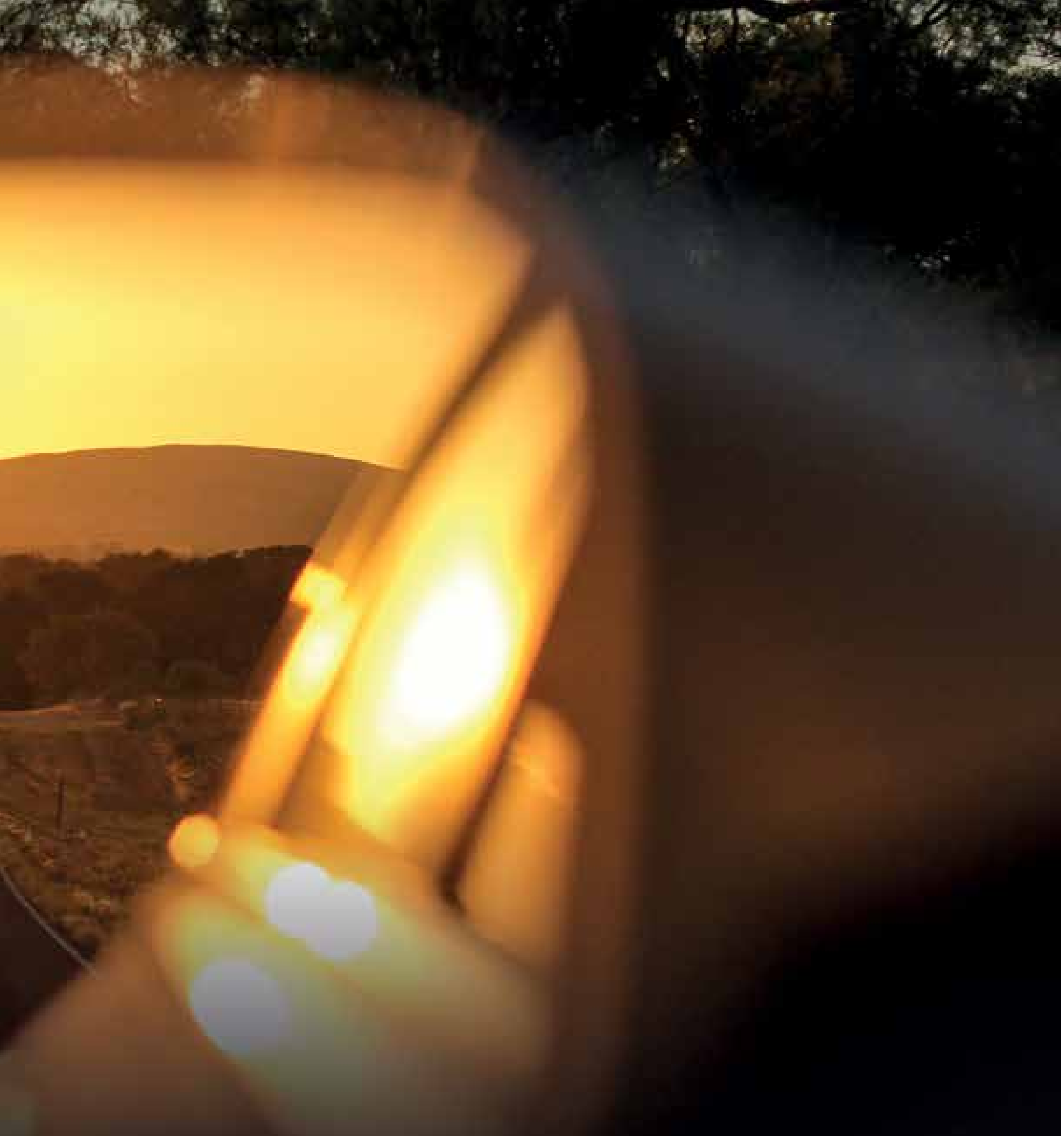

few weeks before they were deployed. Further, despite a short history of usage, zero (or even negative) interest rates and quantitative easing are today treated as legitimate and controllable policy options that can be tweaked as required. From this, we can only surmise that, like the conversation in 1972, reality has been 'revised' to suit all concerned.

Despite this desire to paint a picture of certainty and control, the various crisis rescue measures have already introduced a raft of unintended consequences. Perhaps the biggest of these has been the increase in wealth inequality, particularly across generations. There are now fewer people with a meaningful stake in the system and, as they tend to be younger, the full implications of this will take some time to become clear.

If excessive debt was one of the main contributing factors to the financial crisis, the measures taken over the past ten years have not addressed this. In fact, they have arguably made it worse.

It seems unlikely that an entire generation will commit itself to a life of indentured servitude to repay debt that they had no choice but to accumulate. History would instead suggest that the rules of the system will be changed. It is, of course, 'too early to tell' how the rules will change but the time-tested solution is currency debasement, in other words inflation. ■

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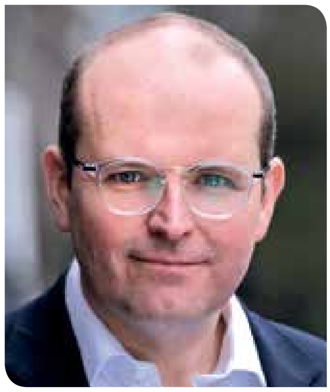

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Alasdair joined the Company in 2003 and became Manager in 2015.

He has 19 years of diverse global investment experience and a distinctly contrarian investment philosophy. He and his team take a highly active, differentiated approach to investment.

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