

McLean Budden Update

Events in Japan

March 17, 2011

McLean Budden wishes to express its deepest sympathy to the victims of the earthquake and subsequent tsunami that occurred in the Tohoku and Kanto regions of Japan late last week. It is still too early to measure the full extent of this human tragedy in what remains a very fluid situation involving multinational search & rescue and damage control efforts. We join the rest of the world in hoping for a speedy reunion of loved ones and a swift and positive resolution to the ongoing situation at the Daiichi nuclear facility in Fukushima.

The ramifications of Japan's worst earthquake in 140 years extend to a global concern over its affect on the fragile global recovery. At the time of writing we offer these thoughts:

- > We do not see obvious global macro economic implications from this obviously horrific human tragedy
- > It is best classified as a local/Japan specific event – there are implications for Japan's economy and fiscal/monetary policy response but little impact elsewhere
- > The region comprises approximately 6%-7% of Japan's GDP and Japan is 9% of global GDP, which could result in a 0.2% temporary reduction of global growth
- > There is a risk of a minor disruption to the global/Asian supply chain; but thus far it has been limited
- > Japanese equities were down in the days following the disaster, however, indications suggest this is due to foreign (i.e. non-Japanese) selling and hedge fund transactions
- > We foresee some impact on commodities in the short-term but not a macro issue – more of a micro/substitution effect
- > There will be implications for stocks/sectors – taken on a case by case basis – bottom-up stock picking will be critical as the widespread sell-off potentially opens up new buying opportunities in the Japanese market, especially those that may benefit from the reconstruction
- > No systemic ramifications are foreseen either in Japan or globally
- > The Bank of Japan continues to add liquidity, however, its options are somewhat limited due to the depressed interest rate environment
- > Politically, the tragedy likely prolongs the life of the current government which will hopefully create enough political unity to pass a budget
- > The crisis will likely worsen the budget and debt situation, but Japan does not have a funding issue due to its current account surplus (due to excess domestic savings) and the fact that domestic investors buy Japanese government bonds
- > Yen repatriation could push the currency a little higher in the short run but significant currency moves are unlikely as savings are trending lower

Point of reference: The Great Hanshin Earthquake

- > The damage seems to be less in Tohoku vs. the Kobe earthquake of 1995 whose epicenter was very close to the city
- > At the time Kobe was close to 4.0% of GDP and the importance of its position between Osaka and Western Japan was more disruptive
- > The Kobe earthquake did not have a significant macroeconomic effect despite Japan being less prepared than they are now
- > Industrial production dipped in January 1995 but then bounced back in February and more so in March

Security Selection

As noted, the economic and market related impact appears to be security specific. We continue to monitor our overall exposure to the Japanese market within our portfolios. Currently, our foreign equity strategies hold an underweight position in the Japanese market, relative to their respective benchmarks. On a valuation basis we expect a number of opportunities to arise based on the indiscriminate selling in the aftermath of the quake, particularly companies well positioned to assist in the reconstruction of the affected areas.

Predictably, there is uncertainty revolving around the prospects for uranium producers like Cameco Corporation. In our view, caution is warranted as developed economies will pause to consider their own nuclear programs in the short-term. However, it is unlikely that emerging economies, chiefly China, will halt their nuclear power expansion plans for an extended period and we expect they will be the key driver for uranium in the longer-term.

In summary, the closure of Japanese industrial production facilities in the area, is not seen as a large detractor due to the diverse geographical distribution of the larger Japanese industrial and technology firms' plants enacted after the Great Hanshin Earthquake of 1995.