THE FOXHALL GLOBAL OUTLOOK

Dear Paul,

In your last Foxhall Global Outlook you talked about how the next big GLOBAL SUPER-CYCLE INVESTMENT TREND was investing in those companies and commodities that will be used by China over the next decade in their trillion dollar infrastructure investment programs. Isn't this trend applicable in other emerging markets too? I hear many other emerging markets are spending big sums on their own infrastructure development.

You are right! Many emerging markets around the globe are flush with U.S. currency reserves. These countries have decided that they would rather spend those hard currency reserves on developing their own country's infrastructure rather than invest in U.S. Treasury Bonds, given the fact that the U.S. government is paying rates on U.S. Treasury bonds that yield less than the inflation rate, in addition to the dollar continuing to loose its value.

Over the next decade, we believe investing in the commodities and companies that will be directly benefiting from the infrastructure spending of Asian countries and other emerging markets **will be an excellent way to maximize your investment dollars over the next decade!**

THE BIGGEST INVESTMENT BOOM IN HISTORY

Investment analyst Nicholas Vardy estimates that emerging economies will spend an estimated $1.2 trillion on roads, railways, electricity, telecommunications and other infrastructure projects **just this year.** He says, "That's the equivalent to 6% of their combined GDPs—and twice the percentage being invested in developed economies. Even at the height of the United States' infrastructure spending—the expansion of railways in the mid-nineteenth century—total investment barely hit 5% of GDP. Today, the equivalent number in China is 12%. "Laggard" India intends to almost double the infrastructure investment share of its GDP from 5% to 9% within the next five years."

"INFRASTRUCTURE SPENDING PROVIDES THE ULTIMATE BANG FOR THE INVESTMENT BUCK."

Morgan Stanley predicts that emerging economies will spend $22 trillion on infrastructure between now and 2018. Australia's Macquarie Bank puts the number at $30 trillion through 2030. Last year, Brazil announced a four-year plan to spend $300 billion to modernize its infrastructure. The Indian government has penciled in $500 billion in infrastructure projects in its latest five-year plan. Russia now has plans to construct 39,000 miles of new roads and 5,300 miles of railways by 2015, including an eight-lane expressway that will link St. Petersburg to Helsinki and Moscow by 2015.

Vardy also notes, "This investment boom isn't limited to emerging economies. A casual drive through the Northeast corridor of the United States will confirm that much of the United States' roads, airports, bridges and tunnels are in sore need of upgrading. The American Society of Civil Engineers estimated that $1.6 trillion would be required during a five-year period to bring U.S. infrastructure back into shape."

THE BIGGEST INVESTMENT BOOM IN HISTORY: THE CHINA FACTOR

Vardy also echoes what I discussed in last weeks FOXHALL GLOBAL OUTLOOK that "unsurprisingly, the biggest player in the infrastructure boom is China. Four out of 10 dollars spent on infrastructure during the next 10 years will be spent by Asia's emerging economic giant. China's commitment to infrastructure has been relentless. Between 2001 and the end of 2005, it spent more on roads and railways than it did in the previous 50 years combined. By the end of 2007, China had built some 33,500 miles of roads, thereby achieving in 17 years what the West took 40 years to accomplish. And its remarkable pace is continuing. Between 2006 and 2010, China will invest $200 billion in railways alone, four times more than in the previous five years.

Like the Olympics, China's infrastructure boom is a collection of trophy projects. Beijing's new airport terminal is the world's largest. The floor space is 17% bigger than London's Heathrow—the world's busiest airport. Designed in the form of a Chinese dragon, it was planned and built in a mere four years by an army of 50,000 workers. And China plans to ADD ANOTHER 97 AIRPORTS BY 2020 to the 142 it had at the end of 2006. The number of airports handling more than 30 million passengers a year will grow from 3 to 13.

Bullet trains are another high profile endeavor. Costing $30 billion, the Beijing-Shanghai high-speed line is the most expensive project in China's railway history. An 800-mile bullet train between Beijing and Shanghai—the equivalent of going from

New York to Chicago—will reduce the travel time between the two cities to a mere five hours. But the ultimate trophy is yet to come. A plan published by the Ministry of Communications in 2004 mentions a highway from Beijing to Taipei, Taiwan, to be completed by 2030. The technical challenges of crossing the 94-mile Taiwan Strait aside, the document does not suggest how to tackle the even bigger political problem of reaching an agreement with Taiwan."

THE BIGGEST INVESTMENT BOOM IN HISTORY: A NO-BRAINER

Here's what Vardy says he particularly likes about the infrastructure investment boom. "Infrastructure spending provides the ultimate bang for the investment buck. Initially, a wide range of infrastructure companies—steel, mining equipment and construction companies—are set to benefit from an unprecedented construction boom. But infrastructure is a gift that keeps on giving, itself boosting economic gains. The World Bank estimates that a 1% increase in a country's infrastructure stock generates a 1% increase in the level of GDP. Once you understand that, it's easy to see how East Asia's investment in infrastructure explains a large part of its faster growth compared to Latin America.

LONG-TERM TREND INVESTMENT ADVICE: "USE YOUR EYES AND PLAGIARIZE"

And like the best global megatrends, the infrastructure boom is not about re-inventing the wheel. The late Nils Taube, one of the United Kingdom's most esteemed fund managers, noted at the London Junto conference last year that the secret to his investment success was to "use your eyes and plagiarize." Unlike venture capitalists in Silicon Valley, investors in global infrastructure don't have to uncover the next Google to make money. Infrastructure assets offer investors remarkable benefits: there is little competition; they offer essential, non-substitutable services; and they provide stable cash flows linked to inflation during a period of several decades. After all, people use and pay for roads, bridges and ports everyday."

I would also add that once engineering plans are completed, **an investor can know**, with some specificity, how long each project will last and the amount of commodities that will be used and the major companies that are receiving contracts and will profit over a long period of time.

YOUR INVESTMENT PORTFOLIOS AT FOXHALL CAPITAL WILL BENEFIT FROM THIS LONG-TERM INVESTMENT TREND

FOXHALL CAPITAL fully understands and appreciates that this is going to be one of the biggest investment booms in history. This is going to be like getting into steel before World War II or investing in Microsoft in the early 1980's.

The key is to see and identify the GLOBAL SUPER-CYCLE INVESTMENT TREND early and act on it!

At FOXHALL CAPITAL we are already positioning portfolios through our investments in hard asset commodities, our Pacific Rim and Emerging Markets investments and investing in those U.S. companies that will be primary beneficiaries of this global infrastructure spending boom.

Our FOXHALL CAPITAL clients will be invested early to take maximum advantage of this major global investment trend over the next decade.

UNTIL NEXT WEEK...

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PORTFOLIO COMMENTARY AND ALLOCATIONS

THE FOXHALL WAY: IT'S ALL ABOUT THE PROCESS

In recent Portfolio Commentaries we have reviewed how at Foxhall Capital, we employ proprietary methods developed by our Co-Chief Investment Officers, Paul Dietrich and David Morton, that combine rigorous quantitative screening and ranking processes with long-term trend following analysis to construct our portfolios and determine necessary changes. We have also discussed how our trading team executes these portfolio allocation changes with discipline. We call this combination of sound process and discipline "The Foxhall Way" of portfolio management.

Today, we will look at the effect that "The Foxhall Way" has on portfolio volatility compared to market volatility before and after a major trend change signal, such as we had on January 10th, 2008 when we moved to 'defense' following our long term trend following 'sell signal' that day.

As we are all aware, the market has moved through a series of gyrations in recent months. What we may not be aware of is the change in market volatility in the months leading up to the Foxhall 'sell signal' vs. the time since then:

- The S&P 500 Total Return Index has increased in daily volatility by 23% since the Foxhall 'sell signal' on January 10th.* (*Measured by comparing the standard deviation of daily closing price changes for the period from August 31, 2007 to January 10, 2008 vs. from January 11, 2008 to June 6, 2008)
- Looking at a representative account from The Foxhall Global ETF Series: Growth Strategy we found that <u>daily volatility actually decreased by 61%</u> over the same time frame!*

Another interesting phenomenon was noted when we compared the 'offense' and 'defense' volatilities of the Foxhall account to the Index.

- During the months leading up to the 'sell signal', the Foxhall account was actually 35% more volatile while on 'offense' than the index, and then became 57% less volatile after the move to 'defense' was made.
- While volatility can be 'good' or 'bad' depending on the success of the portfolio investments at the time, it is important to note the significant and demonstrable change within the Foxhall portfolio compared to the Index over this test period.

When viewed from this perspective, we can clearly see the effects of the "Foxhall Way" in action as we moved from an offensive position to our current defensive strategy.

Dave Morton

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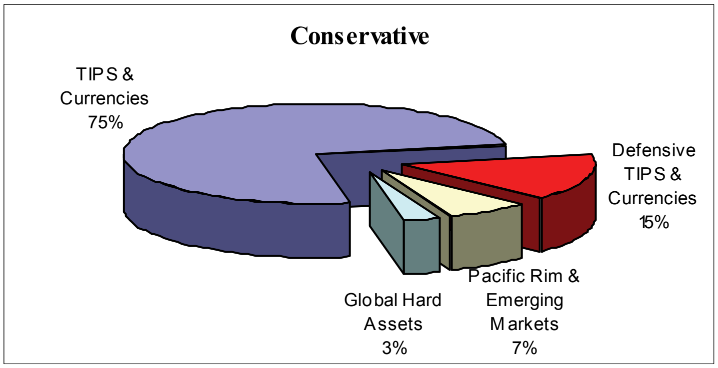
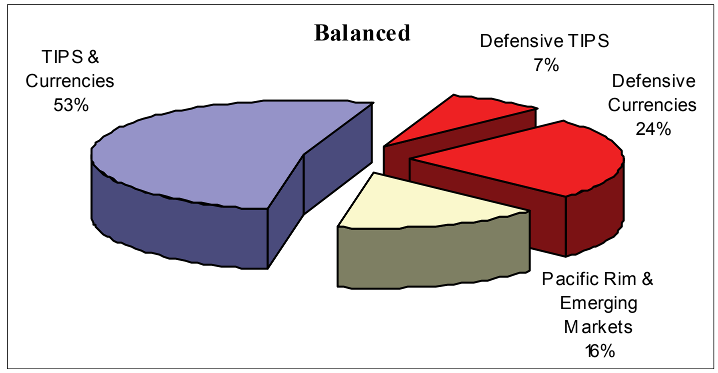
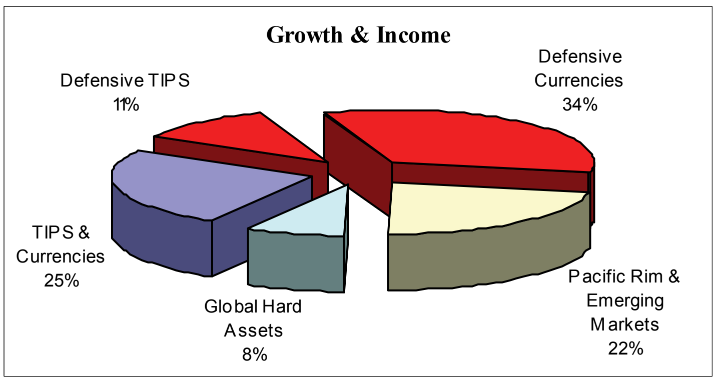
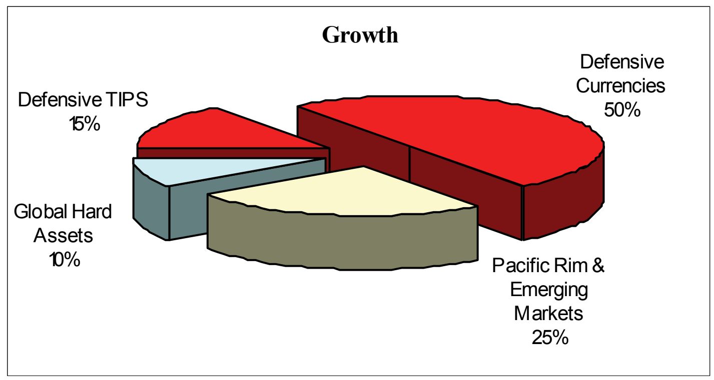
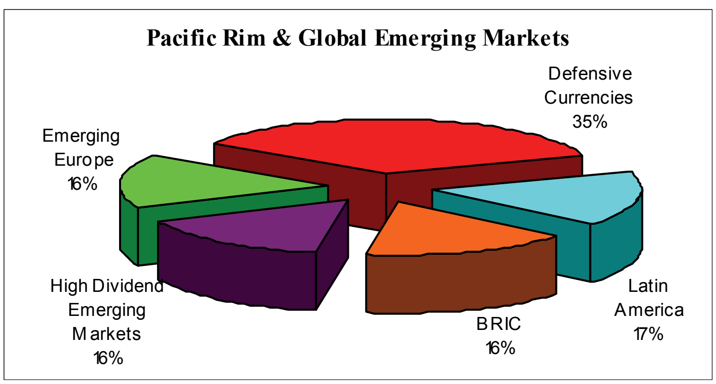
THE FOXHALL GLOBAL OUTLOOK
GLOBAL MARKET ROTATION PORTFOLIOS

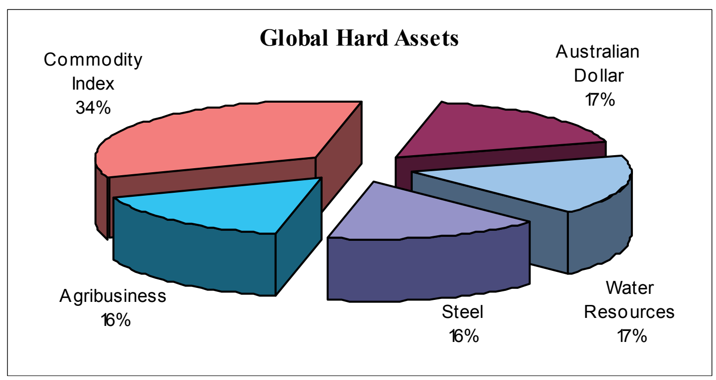


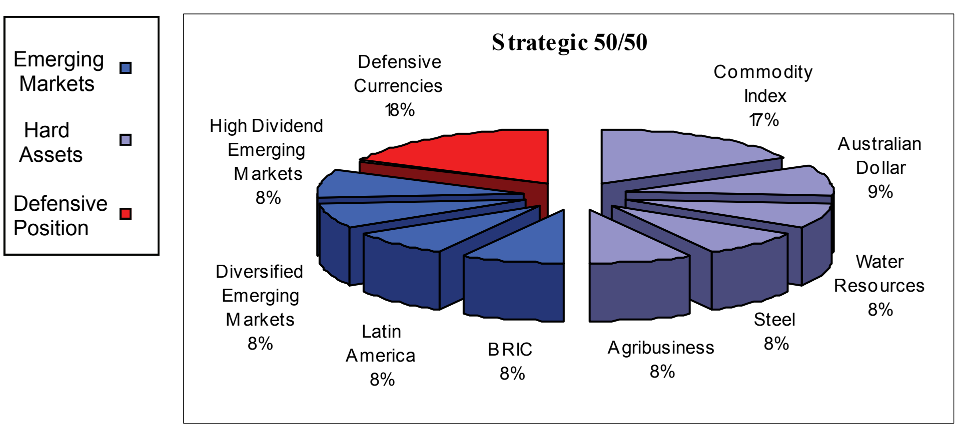












The allocations illustrated are model allocations, actual client accounts could vary due to many factors. Variable annuity/variable life accounts will vary significantly due to the availability of investment options in each contract. All allocations may change without notice.